

The Role of Internal Audit in Effective Management in Public Sector.

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Abstract

This study is an empirical analysis of the role of Internal audit (IA) in an effective management control in public sector. It examine if effective management can be achieve in local government, IA effectiveness does play a role in ensuring effective management in public sector, and If IA effectiveness does affect management control in public sector in Edo State using Z –test statistical tool. The Z-test results shows that effective management can be achieve in local government, IA effectiveness play role in ensuring effective management in public sector, while IA effectiveness does not affect management control in public sector in Edo state.

Keywords: Internal auditing; Public sector; management control and effectiveness

1. Introduction

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector management. The reason is obvious, government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities. As a result of these Government huge involvements in economic activities, initiatives are being taken all over the world towards improvement of the standards of accounting and auditing departments in government (Angus and Mohammed, 2011). Public sector managers operate in a complex and challenging environment. This, in part, reflects the evolving demands and expectations of the community, government and the Parliament. Internal audit is an important element of the range of resources and mechanisms available to public sector managers to assist them to meet their responsibilities within this environment. Anao (2012). Internal audit provides an independent and objective review and advisory service to provide assurance to the Chief Executive and/or Board that the entity's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective, economical and ethical manner; and assist management in improving the entity's business performance. According to Izedonmi (2000), Auditing involves an independent examination of the financial statements of an enterprise prepared by the management of that enterprise by an appointed person called auditor in order to express a professional opinion whether or not those financial statements show a true and fair view position of the enterprise as at the end of the financial period in accordance with the auditor terms of engagement as well as other relevant statutory and professional regulations. As owners of organization are separated from the management, this has necessitated the need for auditing. It used to be that internal auditing in the public sector served as a simple administrative procedure comprised mainly of checking accuracy of transactions, pre-payment verification and control, counting assets and reporting on past events to various types of management. But in recent times, a combination of forces has led to a quiet revolution in the profession. Governments moving toward higher levels of transparency must demonstrate accountability in the use of public money and efficiency in the delivery of services. Larger and more complex operations demand greater competency and professionalism from internal auditors to minimize and manage risk. Internal audit is one of a number of internal assurance and business review activities that should operate in a coordinated and complementary manner to the benefit of the organization. These other activities include management monitoring, evaluations, quality assurance and control self-assessment arrangements that are all designed to provide confidence and assurance to Chief Executives and/or Boards that management is meeting its responsibilities and the entity is achieving its objectives, Anao (2012). Auditing is an expensive proposition, however auditing help in reduction of information risk which is the risk that information upon which a business is based is accurate. Establishing a professional working relationship between internal audit and the external auditor should deliver benefits to both parties. It is important that internal audit seek input from the external auditor in developing the internal audit strategy and internal audit work plan. Internal and external audit consult with each other during the planning phase of individual audits that address the key financial and business systems underpinning the entity's financial statements. In order for the external auditor to use specific work of the internal auditor, the external auditor is required to evaluate the work of internal audit to determine its adequacy for external audit purposes. Internal audit (IA) ensures effectiveness and the extent to which an internal audit staff meets its obligation, is arguably a result of the interplay among some factors: internal audit quality,

management support; and organization setting. Therefore, internal audit should be viewed as a dynamic process that is continuously shaped by the interactions among the factors mentioned above.

1.1 Statement of the Problem

This study, the role of internal audit in effective management control in public sector has been conducted in developed countries and it has show a significant relationship between IA and public sector management, for example (Jill 1998; Schwartz, Dunfee & Kline (2005).this have necessitate this study to find out the role of internal audit in effective management control in public sector in Nigeria. The statement of the problem arises from question such as:

- 1) Can effective management control be achieved in local government?
- 2) What is the role of IA in achieving effective management control in local government?
- 3) How does IA affect management control in local government?

1.1.1 Objective of the Study

The main objective of the study is to examine the role of internal audit in effective management control in public sector. Specific objectives are to:

- 1) Find out if effective management control can be achieved in local government.
- 2) Find out the role of IA in achieving effective management control in local government.
- 3) Find out How IA affect management control in local government.

1.1.2 Hypothesis

The following hypothesis are stated in their null form

HO1 effective management cannot be achieve in local government.

HO2 IA effectiveness does not play any role in ensuring effective management in public sector .

HO3 IA effectiveness does not affect management control in public sector.

The paper is structured as follows. The next section presents a review of the related literature; The third section presents the research methodology; fourth section provides empirical analysis based on the hypothesis; and fifth section presents a summary of the findings. The paper then summarizes the conclusions, and recommendation.

2. Literature Review

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart & Kent 2006). The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Unegbu & Obi (2007) defined internal audit as part of the Internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management. According to Unegbu & Obi (2007) Internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, ensure capacity utilization and maximum benefit derivation. In the view of Adeniji (2004) Internal audit is part of the internal control system put in place by management of an organization.

The Institute of Internal Auditors (IIA, 1999a) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations, It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This definition signifies that internal audit has undergone a paradigm shift from an emphasis

On accountability about the past to improving future outcomes to help auditors operate more effectively and efficiently (Nagy & Cenker, 2002; Stern, 1994; Goodwin, 2004).

Internal audit is effectively control if it meets the intended outcome it is supposed to bring about.

Sawyer (1995) states, internal auditor's job is not done until defects are corrected and Remain corrected. Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services. Based on the results of a consultative forum that focused on improving public sector internal audit, Van Gansberghe (2005) identified perceptions and ownership; organization and governance framework; legislation; improved professionalism; conceptual framework; and also resources as factors influencing internal audit effectiveness. Effective internal audit undertakes an independent evaluation of financial and operating information and of systems and procedures, to provide useful recommendations for improvements as necessary. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in Particular and the organization at large (Dittenhofer, 2001). Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of

procedures and operations of the auditor, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Prior literature relating to internal audit effectiveness has either focused on the internal audit's ability to plan, execute and objectively communicate useful findings (Xiangdong, 1997; Spraakman, 1997; Dittenhofer, 2001); or taken a broader view and included factors that transcend the boundary of a single organization (Van Gansberghe, 2005). This study attempts to introduce a different perspective for evaluation of internal audit effectiveness by identifying factors within an organization that impact on audit effectiveness. Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000). Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

Audit findings and recommendations would not serve much purpose unless management is committed to implement them. Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995). Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditors. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve.

2.1 Management Control in Public Sector

In the eye of Woolf (1986) the public sector is primarily composed of non-profit making organizations. Management control in its broadest context is the means by which an organization carries out its objectives effectively and efficiently. Public sector management can be generally distinguished as having hierarchical structures composed of responsibility centers, units, sections, departments and divisions. Central government department, if changes are made for certain services they are usually nominal and have a little impact on the level of services offered. Autonomous bodies are subjected to high degree of Central government control. Local government authorities receive by far the largest proportion of their funds through the rate support grant or allocation. They can equally raise revenue locally, primarily by levying rates; the extent of their power is strictly monitored by central government. Therefore, the management and control of the public purse is the heart of government administration. The internal audit reports directly to the chief executive, the financial regulations, however, enjoins the chief executive of each ministry to ensure that the accounting and finance functions and internal audit functions are placed under the direct control of suitable competent accountants..

2.2 Internal Audit Quality

Internal audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored. The performance standards of the IIA (1999) require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

2.3 Top Management Support

The management literature offers ample evidence for the key role of top management support in the success of almost all programs and processes within an organization. Fernandez & Rainey (2006) argued, based on a literature review that top management support and commitment to change play a crucial role in organizational renewal, as senior managers can mobilize the critical mass needed to follow through on efforts launched by one or two visionary thinkers. A number of empirical studies have found top management support for quality to be a key factor in its improvement.

2.4 Organizational Setting

Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. In order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged.

3. Research Methodology

The research design employed in this work is the survey design, the population under consideration consist of public sector in Edo State which is quite large, hence the use of a sample, the primary source of data is been used with the aid of a questionnaire which is divided into two section consisting of ten questions the closed ended question were asked, comprising of five responses.

Data Collection, Presentation And Analysis

The techniques used in analyzing the collected data is the Z-test statistical tool, over forty questionnaires were administered, each to willing and available directors, Accountants ,Auditors and others of various levels in the Public Sector in Edo State.

3.1 Data Presentation

Table 1 Demographic distribution of respondents

Respondent	number	Percentage (absolute)	percentage (relative)
Director	2	3.70	0.037
Auditor	24	44.44	0.444
Accountant	13	24.07	0.240
Other	5	9.26	0.0925
Total	54	100	1.000

Source: researcher (2013)

From this table 1 majority of the respondents are auditors.

Table 2. Age Distribution of Respondents

Category	number of respondent	Percentage(absolute)	percentage(relative)
Below 20	2	3.70	0.0370
21-30	25	46.30	0.4630
31-40	16	29.63	0.2963
41-50	8	14.81	0.1481
51-60	3	5.56	0.0556
Above 60	-	-	-
Total	54	100	1.0000

Source: researcher (2013)

Table 3. Sex Distribution of Respondents

Category	number of respondent	Percentage(absolute)	percentage(relative)
Male	26	48.15	0.4815
Female	28	51.85	0.5185
Total	54	100	1.0000

Source: researcher (2013)

Table 4. Educational Qualification of Respondents

Category	number of respondent	Percentage(absolute)	percentage(relative)
MSC	3	5.55	0.055
BSC/HND	37	68.52	0.6852
OND/NCE	10	18.52	0.1852
PRIMARY SCH.LEV.			
CERTIFICATE	4	7.41	0.0741
Total	54	100	1.0000

Source: researcher (2013)

Table 5 Place of Employment of Respondents

Category	number of respondent	Percentage(absolute)	percentage(relative)
OREDO	18	33.33	0.3333
IKPOBA-OKHA	23	42.59	0.4259
OBSERVER	13	24.07	0.2407
Total	54	100	1.0000

Source: researcher (2013)

Hypotheses Testing

Hypotheses one: effective management cannot be achieve in local government

	Q1	Q2	MEAN
SA	4	13	8.5
A	10	26	10.5
UND	5	3	4
SD	21	6	13.5
D	14	6	10
P-VALUE CAL			0.000945
P-VALUE TAB			0.025

The decision is to reject the null hypotheses if the calculated value is less than the table value. Therefore, from the above the null hypothesis is rejected since the calculated P-value is less than the table P-value at 95%confidence interval

Hypotheses two: IA effectiveness does not play any role in ensuring effective management in public sector

	Q3	Q4	MEAN
SA	5	9	7
A	4	15	9.5
UND	9	5	7
SD	15	16	15.5
D	20	9	14.5
P-VALUE CAL			0.00011
P-VALUE TAB			0.025

The decision is to reject the null hypotheses if the calculated value is less than the table value. Therefore, from the above, the null hypotheses is rejected since the calculated P-value is less than the table P-value.

Hypotheses three: IA effectiveness does not affect management control in public sector

	Q5	Q6	MEAN
SA	25	8	16.5
A	10	11	10.5
UND	2	27	14.5
SD	10	7	8
D	7	1	4
P-VALUE CAL			0.048
P-VALUE TAB			0.025

The decision is to reject the null hypotheses if the calculated value is less than the table value. Therefore, from the above, the null hypotheses is accepted since the calculated P-value is greater than the table P-value.

All the items for the independent variables were measured on a 5-point scale (1 = strongly disagreed to 5 = strongly agreed).

3.2 Findings

Based on the analyses of information presented above, the following findings were noted. effective management can be achieve in local government and IA effectiveness does play a role in ensuring effective management in public sector, this view is supported by (Dale & Duncalf 1985; Ebrahimpour & Lee 1988; Flynn, Schroeder & Sakakibara 1994). Other studies have demonstrated that support for internal audit effectiveness (Jill 1998; Schwartz, Dunfee & Kline (2005). Mihret, Dessalegn Getie and Yismaw, Aderajew Wondim (2007).

It was also discovered that IA effectiveness does not affect management control in public sector, apparently not significant enough to influence management effectiveness in public sector, this also was supported by Mihret, Dessalegn Getie and Yismaw, Aderajew Wondim (2007).

4. Conclusion and Recommendations

This study investigated the role of internal audit in effective management control in public sector organization, the findings of the study reveal that effective management can be achieve in local government and IA effectiveness does play a role in ensuring effective management in public sector, while IA effectiveness does not affect management control in public sector.

Since effective management control can be achieved, and IA play a key role in ensuring effective management in the public sector, there is the need for today's auditors to acquire the requisite technique and skills in computer operations and electronic data processing in order to carry out their work effectively to continually support IA effectiveness. And management should put in place a conducive environment for internal auditors to perform their duty because of the impact, which it has on IA effectiveness. Therefore training personnel as well as other training infrastructure becomes an important ingredient in the successful operation of internal audit effectiveness in public sector organizations. Heads of internal audit units should be in attendance at top management meetings to be aware of policies affecting organizational objectives.

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Appendix I

Sample Questionnaire

Section A

Instruction: Tick as Appropriate

1. What group of employee do you belong to? Director [] (b) Accountant []
 (c) Auditor [] (d) Others
 2. For how long have you been holding the position? below 2 [] (b) below 5 []
 (c) Below 10 [] (d) others
 3. Sex? Male [], Female []
 4. Age: 18-25 [], 26-33 [], 31-41 [], 42-49[], 50 and above []
- Note: SA –strongly agreed A -agreed SD –strongly disagreed D-disagreed UN-undesired
 5 4 3 2 1

SECTION B

	SA	A	SD	D	UN
1. The organization allows IA employees to participate in training and development programs in order to maintain their skills and keep up to date in the field;	()	()	()	()	()
2. IA employees have the appropriate and relevant education in auditing that allows them to audit all of the organization’s systems (financial, operational, logistical and computerized)	()	()	()	()	()
3. Top management does not provide IA with the support they expect to have;	()	()	()	()	()
4. IA does not play any role in effective management ControlIn the public sector	()	()	()	()	()
5. IA effectiveness does not affect management control in Public sector	()	()	()	()	()
6. Terminating the work of the IA requires the approval of the IA committee, and/or the board of directors, and/or the Civil Service Commission;	()	()	()	()	()