

# Free research proposal on the impact of internal auditing in the public sector go...

[Business](#), [Management](#)



## **Introduction/ Background**

Internal auditing plays a crucial role in businesses and the processes of financial reporting of public sectors. The internal auditors serve a vital role in monitoring the risk profile of the company and identifying the areas on which to improve the risk management. The objective of internal auditing is essentially to improve the organizational effectiveness and efficiency through constructive criticism. Of late, internal auditing has turned into an essential control mechanism in both private and public sectors. However, there have been few academic studies that have been conducted on the internal auditing effectiveness in the governance of the public sector. The focus of this research is thus to build a theoretical understanding of the effectiveness of internal auditing on governance of the public sector.

Governance refers to the combination of the processes as well as structures that are executed by the board to inform, provide directions, manage, and finally monitor the activities of the organization toward the realization of its aims. In the case of public sector, governance entails the means through which goals/objectives that are established and achieved. Additionally, it includes the activities, which ensure the credibility of the public sector, assure correct behavior of the government officials, and establish fair provision of services.

Auditing is essentially the cornerstone of the governance of public sector. Through providing objective and unbiased evaluation of whether there is an effective and responsible management of the public resources to realize the intended outcomes, auditors help the public sector organizations accomplish integrity and accountability instill confidence among the stakeholders and

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citizens, and improve operations. Public sector auditor's task supports governance responsibilities of insight, foresight, and oversight.

## **Problem statement**

According to this study, the essence of internal audit in the process of efficient and effective management control is the epicenter interest of many developed countries. The study aims at conducting an effective relationship analysis between the internal audit and the management of the public sectors. According to Dunfee & Kline (2005), the essence of conducting the relationship between the internal audit and the public sector management is important since one can identify the extent to which auditing improve the managerial output of the firm. It is important to note that we have different independent and dependent variables in our comparison task. There are differentiated ways by which the overall performance of internal auditors can be evaluated. However, it is important to note that the results of these assessment activities are laid out to develop an affirmative response towards the incorporation of internal audit systems within the organizations' management. Ideally, there are questions that lead to the development of a better organized problem management in this study.

## **Study questions**

This study has a well linked problem statement which is effectively linked to the epicenter of the study. Ideally, the research process of identifying the fundamental nature of maintaining an internal audit within the public sector will be guided by some of the study questions. It is clear that the research is predetermined by strong objectives oriented to form the basis of internal

analysis of the current trends within the internal audit institutions and the probable present and future alterations of procedures applied in the research. These questions include:

- What is the impact brought about by the initiation of internal auditing, in a bid to improve the level of management of organizations within the public sector?
- How is the impact of internal auditing in the management of public sectors manifested?
- Is it possible to achieve optimal effective and efficient management result within the public sector?
- What factors are used to assess the effectiveness of internal auditors in the management of the public sectors?

### **Rational/ objective of the study**

Some of the major objectives of this study revolve around the tangible and significant impacts of audit in a bid to enhance effective management within the public sector. However, there are composite objectives which include:

### **Limitation of the study**

However, this study will assume that the collected data from the sample will be accurate, and this may not be the case due to the subjectiveness and biases in the collection of data. In addition, during the study, I might not be in a position to collect all the required data due to the limited time frame. Therefore, this will affect the quality of the data and research findings.

## **Review of literature**

In the current trends of accounting in the public sector, internal auditing is deemed to serve as a vital link within the financial and business reporting strategies. That is; both in the business and financial reporting of non-profit provision agencies and corporations. According to Goodwin-Stewart and Kent (2006), the major task of the internal audit professional is enclosed within the world of monitoring the riskiness of a company's profile. In addition, the internal audits provide an advisory platform for the best measures subject companies should embrace for them to maintain a suitable financial status. The improved knowledge of the company's status is important since it enables these organizations to upgrade the effectiveness and efficiency simultaneously. Internal audit uses the tool of constructive and calculated criticism to analyze any firm. In other terms, internal audit acts as an internal sector of the organizations management framework (Unegbu & Obi, 2007). Part of any organizational management's function incorporates reinstatement of the internal control system. Accordingly, the internal audit measures are aligned to those of the functional management of the respective organization.

Ideally, the internal auditors are responsible for analyzing, and evaluating the genuineness of the alternative control measure installed by the management. In the long run, these measures are aimed at ensuring flexible organizational activities. That is; control of cost minimization, smooth administration, and proper utilization of, and benefit management (Unegbu & Obi, 2007). According to Adeniji (Unegbu & Obi, 2007), internal auditors are part of their respective organization's management team.

However, internal auditing needs to operate like an overall independent entity within the management. That is; it is part of the management, but it is required to maintain some extent of independence for the good of the organization. According to IIA (2000), the reason behind the exclusive independence is that the advantage of objectiveness and consultancy is supposed to be honored. This strategy is important in ensuring the added value and affirmative productivity of the entire organization. Whenever the auditing sector of the management is given an exclusive platform to operate on, it ensures that a managerial discipline is maintained. That is; there is a deficiency of corruption within the management. The reward for this management practice includes effectiveness in the risk management task and the control process.

Within the current literature analysis of the internal audit committees, there have occurred substantial and significant paradigm shifts. The evolution in question is dependent on the level of accountability enforcement. Most management teams of myriad organizations in the past were accounted to be negligent within the public sector. However, recent developments in the auditing sector have created an alarming situation towards management teams of the organization within the public sector (Van Gansberghe, 2005). According to Goodwin (2004), the accountability by most management teams has materialized after the tough measure that the internal audit institutions managed to possess control over them. In terms of effectiveness, any internal audit is described as successful if it achieves the outcome that it is proposed (Nagy & Cenker, 2002).

According to Schwartz (2005), the job of the internal auditors is deemed

complete when it makes minimal faults. When there are mistakes are identified, then the internal auditing is considered triumphant if these defects are corrected in the long run. The extent of the effectiveness within the internal audit system is affirmed when the service delivered by the entire organization is efficient and effective (Gansberghe, 2005). The efforts to improve the internal audit within the public sector have incorporated some vital strategies. These include alterations of the legislative position on auditing, improved level of professionalism and the overall conceptual framework.

Public sectors have been the subject of corruption and bureaucratic hindrances across the globe. Audit statistics revealed that sectors where the governments or federal states had influence in their operation, performed poorly in the annual performance assessment. According to International Auditing standards, auditing of companies, Parastatals and other public sectors should be free from external influence. Auditors should provide an impartial report on the performance of the company.

According to Goodwin (2004), the organizational structure and hierarchy of management of public sectors is a major contributing factor in the performance of public sectors. He has highlighted that the rigidity in the public sector influences the results of internal audit. Public sector auditing is authorized by the legislature, thus makes the process complicated and prone to influence by third parties. This is contrary to private sectors whose organizational structure requires frequent internal audit. (Goodwin, 2003). Internal auditing has been presumed to be the responsibility of managers in public and private sectors.

However, the international accounting standards board formulated a policy that led to the establishment of internal audit department that would be answerable to audit committees. The department should be composed of qualified auditors who are accredited by the relevant auditing bodies. Moreover, they should possess prior training experience and required education qualifications to enable the public sector. (Al-Twajjry, Brierley and Gwillian, 2003). According to Bou-Raad, internal auditors are the custodians of public sector's going concern and are, therefore, required to exercise transparency and efficiency in their audit performance. (Bou-Raad, 2000)

One of the greatest impediments to internal auditors of a public sector is the lack of independence when carrying out an audit exercise. The American Institute of certified Public Accounts (AICPA) emphasized that internal auditors reserve the privilege of independence in order to produce an impartial report on the performance status of public sector. External influence from third parties in the government could hamper the performance of internal auditors and thus risk the company's future results (IIA). Freedom of internal auditors to establish their performance criteria is essential to effective management of public sector. Internal auditing revolves around three main areas that should operate effectively for impeccable results to be achieved these areas include investigating, analysis and reporting stages. (Vanpeurseem, 2005).

In the recent studies on performance of public sectors, governments have intervened to resolve the stalemate between managers and auditors, that has engulfed internal auditing in the public sectors. The Government has resulted in setting internal auditing departments as a prerequisite for any



prospective employee to assume a managerial position. This approach has facilitated good relationship between managers and auditors (Fernandez and Rainey, 2006). Public governance in public sectors has been highlighted as a key factor that influences the relationship between the government and public sector management. A case study conducted in Belgium revealed that changes implemented in both national and international corporate governance resulted in cohesiveness in all sectors of governance (Sarens and Beelde, 2006)

National and federal governments have the tendency of hiring external auditors to assess the performance of a public corporation. Consequently, the role of internal auditors has been infringed and thus resulting in incredible audit report. External auditors may distort their report in favor of the government and, therefore, discredit the accurate report of internal auditors. The situation occurs due to principal-agent problem between the auditors and the government. (Institute of Internal Auditors, 2012)

Many publicized collapses of the public sectors in the past years have essentially focused the global interest on the need for sturdy corporate governance. At the same time, the 2002 Sarbanes- Oxley Act as well as the newly expanded role of the internal audit preoccupied scientists and researchers. Paape et al. (2003), investigates the relationship between public sector governance and internal auditing. The researchers collected survey data from the leading companies of EU nations. The basic result of their study is the dissimilarities in the internal auditors work as well as the perception of the impact of the internal auditors to the public sector governance by country.

Goodwin (2003) conducted a research on the link between internal audit and audit committee of public sectors. In his survey, he used questionnaires that he addressed to the internal auditors of the public sectors in New Zealand and Australia. Of the responses, he concludes that the accounting experience and independence have a complementary effect impact on the relations of the audit committee with the internal audit. The study by Xiangdong (1997) described the function that internal audit plays in any economy. The study points out that compared to the external audit, internal audit has an advantage in getting information promptly and discovering problems in advance.

Ziegenfus (2000) argues that the internal audit must assess its performance and constantly improve its service for it to have the impact on the governance of the public sectors. It is worth mentioning that auditing quality is essentially a function of staff expertise level, extent to which the audits are planned, executed, and finally communicated. The findings as well as recommendations of the auditing would not serve up a superior purpose unless the management is fully dedicated to implementing them. The implementation of the audit recommendations is relevant to the effectiveness of auditing in the governance of public sector.

Previous literature relating to the effectiveness of the internal audit has either focused on the internal audit capability to plan, execute, and communicate useful findings or taken a wider analysis and included the factors, which transcend the border of a distinct organization. This research tries to introduce a dissimilar perspective for the evaluation of the internal auditing effectiveness through identifying the factors in an organization,

which impact on the effectiveness. The quality of internal audit that is determined by ability of the audit department to offer valuable findings and recommendations is vital to the effectiveness of auditing in the governance of public sector.

## **Conceptual framework**

The study will evaluate the independent and dependent variables that interrelate to influence the role and effectiveness of internal auditing in the public sectors. The dependent variable is the public sector governance. Independent variables include quality of audit, independence of internal auditors, career and development, support from the executive management and government participation.

## **INDEPENDENT VARIABLES DEPENDENT VARIABLE**

### **Methodology**

This section entails research design, sampling data collection methods, data encoding and data analysis and interpretation. Research information should be collected from credible sources, and appropriate methods should be applied to ensure that the data collected represents the majority of the target group's opinions. (Kothari, 2004)

## **Research design**

This study will apply survey design in collecting data. In a sampling, every sample should have a maximum of 30 respondents to increase the chances of obtaining credible information. A sample of 30 will be randomly picked to assist in divulging primary information. Sampling is essential due to its

effectiveness in time and resource saving. In addition, it reduces the variance gap in accuracy and thus increases the level of confidence on data collected.

## **Target population**

Target population refers to a group where the researcher intends to concentrate his or her research findings. Research will target senior managers in the public sectors, reputable internal auditors, accountants and economic analysts.

## **Data collection**

This part entails the methods used by the researcher to obtain data that would be used in making deductions and findings. This study will use primary and secondary sources of data. Primary data will entail the use of open-ended and closed questionnaires that will be distributed to the 30 respondents on a willing basis. The respondents will have a period of one week to respond to the questions. The researcher will also conduct oral interviewees to supplement the information collected.

Secondary sources will entail consider statistics from journal publications, government reports, Annual audit reports from reputable public sectors and scholarly articles.

## **Pilot study**

Provisional questionnaires will be distributed to the respondents to assess the accuracy of the questionnaire. The information gathered will be evaluated, and any changes will be made to the questionnaires before the

final draft. The approach will eliminate erroneous information and ambiguous questions.

### **Data Clearance and encoding**

Data collected will undergo scrutiny to eliminate errors and insert any missing information. Consequently, data will be encoded and stored in floppy disks, compact disks and files. This strategy will ensure the data is free from errors.

### **Data analysis and interpretation**

The researcher will use correlation and regression methods to analyze data. Analyzed data will be interpreted in the form of tables, charts and graphs.

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