Factors influence the effectiveness of internal audit in public sector

Academy

Starting from the early 20 century, economic crisis, corporate failures, malpractices, and fraud have been increased sharply and have caused some terrible effects on stakeholders and economy that forced organizations to pay more attention on the corporate governance. If organizations do not try to improve the effectiveness of the corporate governance, the process of globalization will become slow. In addition, since an effective internal audit is important to effective corporate governance, summarizing the factors that influence the effectiveness of internal audit become so indispensable. (Laura et al., 2010; Dominic et al., 2011; Halimah et al., 2010.)

Previous research on the effectiveness of internal audit in public sector has revealed some factors that have been acknowledged within an organization and factor that has been thought important in a few case study. For instance, internal audit quality, management support, organizational setting, and auditee attributes (Dassalegn et al., 2007, Mu’azu et al., 2014). These factors are pretty obvious. In addition, there are also some other factors that are also important to the effectiveness of IA and were discussed separately in different research paper, such as information technology (Morrthy et al., 2011). After review these 10 literatures, I found there is a lack of efforts to integrate and extend findings about factors that influence the effectiveness of IA (internal audit).

Thus the purpose of this review of the literature is to address this gap by gathering acknowledged factors from these literature and suggesting some potential factors that could also be applied to improve the effectiveness of IA. This review of the literature is trying to
answer the question “what are some established factors that influence the effectiveness of IA, and what are some potential factors that can also ensure the effectiveness of?”

**Internal audit**

The Institute of Internal Auditors 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.” (Dessalegn et al., 2007). As for this definition, it explained the previous concern about corporate governance clearly because it stated the important role of internal audit in corporate governance. A lot of scandals happened in private sector that cause a great attention on the internal audit. But, reforms todays reduce the difference between the public sector and private sector especially regard to corporate governance (Goodwin, 2004). Therefore, given the importance of internal audit in corporate governance in public sector, research really should focus on the effectiveness of internal audit to ensure the corporate governance.

**Effectiveness of internal audit**

Different research have different direction to study about the effectiveness of internal audit. Dessalegn (2007) do a case study in Ethiopian to give a frame work of four important factors which are the “audit quality, management support, organizational setting, and auditee attributes” to evaluate the effectiveness of internal audit. Meanwhile, Moorthy (2011) mainly focused on information technology which can affect the audit process, and give examples about IT system adopted by auditing process. Mu’azu (2014) did a study on the audit
committee to give empirical evidence about the influence of audit committee on internal audit. Moreover, Zulkifli (2014) directly stated some factors such as independence/objectivity of internal auditors which is different from Dessalegn (2007) that evaluate the effectiveness of internal audit. A few literatures of these ten literatures also reported that the effectiveness of internal audit function and internal audit department also have relationship with the effectiveness of internal audit. This research paper will discuss these acknowledged factors and potential factors in the following sections.

The established factors that influence the effectiveness of internal audit

1. Internal Audit Quality

Dessalegn (2007) stated that “internal audit quality is determined by the internal audit department’s capability to provide useful findings and recommendations” (p.472). This one is the most important one that influence the effectiveness of IA because quality is the most obvious and related factor to evaluate the effectiveness of IA. It contains some parts which are the “staff expertise, scope of service, effective audit planning, fieldwork and controlling, and Effective communication” (Dessalegn et al., 2007). I found one resource that is the “audit experience” which can attribute to the staff expertise (Mu’azu et al., 2014). Meanwhile, I also found one factor which is the “Independence/objectivity of internal auditors” that can also attribute to the internal audit quality (Zulkifli et al., 2014).

2. Management support

Management support is another important factor that impact the effectiveness of IA. Internal audit provide service to the management, and if the findings and recommendations used and implemented by the management, and management response
frequently to IA, internal audit will definitely improve its effectiveness. In addition, this factor also influences the quality of IA, organizational settings, and auditee which will in turn affect the effectiveness of IA (Dessalegn et al., 2007).

3. Organizational setting

Organizational setting which provides the context and environment to IA to operate their activities is also a factor to impact the effectiveness of IA. It sets of status, structures, and criteria to regulate the internal audit to make it effective to provide service for the management (Dessalegn et al., 2007).

4. Auditee attributes

This factor is not as important as the previous three but is still an aspect to consider about. In order to ensure the effectiveness of IA, the auditee should give full and unrestricted access to all activities that operate by the auditee. Moreover, its ability to establish criteria can also affect the effectiveness of IA (Dessalegn et al., 2007).

5. Relationship with other parties

The relationship with Audit committee can also be categorized as one of the factors, because Mu’azu (2014) reported that audit “committee can be seen as a body that can be used to bring changes in an organization setting” (p.178). Whether to establish an audit committee can affect the effectiveness of internal auditors, which will in turn impact the IA (Mu’azu et al., 2014).

6. Information technology

This century, technology has a rapid development. It is not doubtful that entities will use more technology now and in the future to management and audit. Therefore, IT will
definitely play an important role in influencing the effectiveness of IA. Krishna (2011) found that “effective use of audit technology tools is critical to the success of audit activity”, which will definitely improve the internal audit quality and eventually affect the effectiveness of IA.

**Additional factors that may affect the effectiveness of IA**

1. Factors that influence the effectiveness of internal audit department

   As I stated in the first factor, internal audit quality is determined by the IAD (internal audit department). There is no doubt that factors influenced the effectiveness of IAD will also impact the effectiveness of IA. Factors related to the IAD including “the dependence of IAD, competency, professionalism, size of local authority, coordination between internal and external auditors, and top management support” (Halimah et al., 2010).

2. Factors that influence the effectiveness of internal audit function

   An organization can have internal audit function or not because this will not influence the activities did by internal audit. But IAF is as important as IA to the corporate governance. Because the performance of IA is measured by the performance of IAF (Halimah et al., 2010). Therefore, factors including relationship with stakeholders, organizational status and support can also be applied to influence the effectiveness of IA (Dominic, 2010)

**Discussion and implication.**

After review of these 10 sources, there is a lack of efforts to integrate findings about factors that will influence the effectiveness of IA. Therefore, this research started to aim at integrate and extend findings about factors that affect the effectiveness of IA. This project finds one acknowledged finding about this issue that was reported by Dessalegn (2007)
including “organizational setting, management support, internal audit quality, and auditee attributes”. These four factors are the inside and obvious factors that affect the effectiveness of internal audit. This research paper also found some small factors that can fulfill the internal audit quality such as the internal auditor experience which is important for auditors to enable the quality of audit findings which in turn enable the quality of recommendations.

Meanwhile, this project found the relationship with audit committee is also an important factor as well as the information technology. These six factors constituted the main findings about acknowledged factors with 4 in one source and 2 in other sources. In addition, this paper also found two more variables which are the effectiveness of internal audit function and effectiveness of internal audit department that can also be deemed as factors because they have closely relationship with the internal audit. In conclusion, this project consists of 8 findings including 6 with real relationship with the effectiveness of internal audit and 2 with potential relationship with the effectiveness of internal audit.

However, this research has limitations. First, this review only contains 10 literatures, it’s not enough to integrate all factors. Second, there is a lack of clarification about the difference among IA, IAD, IAF, and AC, which will confuse the organization to implement appropriate factors for each parts to ensure the effectiveness.

Future research should focus on effectiveness about one key term for each paper, not focus on mixed concepts, and then implement integrated findings on IA. Second, future research should also do more research on potential factors to evaluate their role on the effectiveness of IA, and address these factors. These gaps lead to questions such as “what is IA, IAF, IAD, and AC? What are the relationships between these concepts? What are the
factors that impact the effectiveness of these concepts respectively? What are the integrated factors that influence the effectiveness of IA? What are some ways to evaluate and address the potential factors?

**Reference Lists**


Halimah @ Nasibah Ahmad, Rohana Othman, & Radiah Othman. 2010. “Internal and external factors influencing effectiveness of internal audit department in Malaysian local
This research has limitations. First, I only reviewed 10 literatures, it’s not enough to say my findings including all the variables. Second, these literatures have few clarification about the
difference and similarities about IA, IAD, IAF, and AC which will make the findings a little bit confused.

Future research should focus on one concept for each paper, not focus on mixed concepts that will confuse the readers. This gap lead to questions such as “what is IA, IAF, IAD, and AC? What are the relationships between these concepts? What are the factors that impact the effectiveness of these concepts respectively?