A STUDY ON INTERNAL AUDIT EFFECTIVENESS

VEMULA SRUJANA [1] **MBA Student**

DR. K MADHU BABU [2] **HOD & ASSOCIATE PROFESSOR**

[1,2]MASTER OF BUSINESS ADMINISTRATION

[1,2]Megha Institute of Engineering and Technology for Women, Sy. No. 7, Edulabad Road, Edulabad, Ghatkesar, Telangana.

ABSTRACT

Internal audit has an important role in serving the organization to achieve its objective when it is implemented, operated, functioned, and managed effectively. The key purpose of this study is to investigate the determinants of internal audit effectiveness in the selected Afar National Regional State government public sector offices. This investigation is focused on fourteen Bureaus by purposive sampling techniques used to select public sector offices that are expected to represent all other sectors. The management teams and the internal auditors of the selected public sector office are the source for the required data to the researcher through the questionnaires administered. In addition, the finding of this study is to show the direct relation effects of management support, organizational independence of internal auditors, adequate and competent internal auditor's staff, the presence of approved internal audit charter and quality of internal audit work with the internal audit effectiveness on the public sector management. According to the regression output the management support, the availability of approved IA charter and quality of internal audit work were contributed significantly and positively for the internal audit effectiveness in the public sector. The remaining of two variables; the adequate and competent of internal audit staffs and the organizational independent of internal auditors were statistically not significance with the internal audit effectiveness. All of these five independent variables are making 60.90% of the contributions for internal audit effectiveness in the public sector offices. The public sector offices should understand that the contributions of these variables were mutually significant to identify any noncompliance activities in their office and to add values for the IAE in the public sector offices.

Key Words: The Internal Audit; the internal audit effectiveness; Public sector offices

1.INTRODUCTION

1.1. Background of the Study

Country that is managed in a democratic policy desires to be accountable in its use of public money and in providing effective, efficient and economical (3e's) service delivery. To accomplish those government objectives applying internal audit purpose were the main device for controlling and using of all scarce resources available in the corporate organization. Ever larger and complex systems require greater competitiveness, thus internal audit has had to become ever more professional (Gansberghe, 2003).

Furthermore, the growth in internal audit profession brings change in the scope and purposes of internal audit customers. Earlier internal auditors were realized just as helper of accountant's and an external auditor but newly internal audit is confidently considered an independent profession, which is playing an important role in the management of organizations. Besides, free of internal auditors have always been a sensitive issue while he/she is the employees of the organization, above all, not clearly organized structure or reporting line make the problem more difficult in such offices (Rupsys, 2005).

Public sector offices are part of the public body which is partially or wholly funded by government budget and concerned with providing basic government services to the whole society (Ministry of Finance and Economic Development (MoFED, 2004). The arrangements of the public sectors are diverse by their task and purposes, but in most cases, they are designed in order to permit the public sectors to realize their goals.

The public sector delivers services for instance financing, bank service, education, communication service, healthcare, police, transportation, electric services, security and so on, which benefit all of the society and encourage equal opportunity to benefit from those services provided (Mihret, 2007). The government is allocated annual budget to different purpose to perform so many activities, but there is mismatch the activities on the ground and the expenditure of certain activities this is reason for lack effectiveness internal audit activities. Internal auditors which are emphasis of this study and also the key employee of public offices, are expected to work independently and objectively to improve high quality of public services, attain good internal control system, avoid corruption, make sure good corporate governance system, promote accountability and greater transparency (Coram, 2008; Van Peursem, 2005; Belay, 2007).

Therefore, it is important to have effective internal audit unit as part of modern governance system in public sector offices. In corporate governance, internal audit (IA) issue has established increasing attention in recent years, due to diverse reasons. To reference some of them, internal audit relations to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; diminish information asymmetry during decision making; serves as an significant internal assurance in the business and financial reporting process of corporations (Seol I., 2011; Cohen. & Sayag, 2010; Mihret, 2007).

Moreover, in the accounting profession, audits play a significant role in helping the public interest by increasing the accountability of directors and supporting trust and confidence in financial reporting process and they help as a significant relation in the business and financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2000). In assembly with this, internal audit classifies weak relations in the structure as well as generates potential occasions for development and act as a response mechanism for the top management. Hence, organizations seeking appropriate and effective quality management system need to behavior internal audits to confirm that the system functions as intended (Lindow, 2002).

Institute of Internal Audit's (auditors, 2001), board of directors defined internal audit as: An independent, objective assurance and consulting activity designed to enhance and improve an organization's operations. It supports an organization to achieve its objectives by carrying a systematic, disciplined method to assess and develop the effectiveness of risk management, control, and governance processes.

These definitions give us a comprehensive hint about significant and contribution of internal audit functions in the organizations. For example, internal auditing is complicated in consulting activities, and value added assistances for the evaluation and enhancement of the effectiveness of risk management and governance process (auditors, 2001). This display the roles of internal

2.LITERATURE REVIEW

2.1 Introduction

Organizations have encountered rapid changes in economic complexity, expanded regulatory requirements, and technological advancements in recent years. In addition to these changes, the current corporate scandals and the global financial crisis also pushed the public and regulatory bodies to give unique position to internal audit in corporate governances for internal assurance services (Soh, 2011). These changes have given the IA a set of expanded opportunities to support and advice management; evaluate risk exposures relating to the organizations governance, operations and information systems, identify internal control system efficiency and effectiveness, provide services to other organizational functions; and generate direct reporting links to the audit committee and shareholders; safeguarding of assets; and compliance with laws, regulations, and contracts(auditors, 2001, Ministry of Finance and Economic Development.MoFED, 2004). The Ethiopian ministry of finance first issues the audit directive in 1942, by focusing mainly on the public sector utilization of funds, and it marked on the modernization of audit practice in the country. By following this, the Office of the Audit General (O.A.G) is formulated in 1961 with the necessary modifications with respect to the duties and responsibilities of the bureaus and the auditors; and in 1987 and onwards, there are significant developments in public sector auditing systems in the country).

Moreover, the coming of Proclamation No. 13/1987 empowered the O.A.G to direct the internal auditors of government offices and public enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top management are complied with that implies less attention was given to operational audit as a service to management (Kinfu, 1990; Lemma Argaw, 2000).

The public sector offices are the major vehicle for economic development due to their engagement in various economic activities; such as in manufacturing industry, transport and communication services, banking and financial service sectors, construction sector, hotel and tourism industry, etc. To become efficient and effective in each economic activity the performance of the management should regularly measure and assessed to take corrective actions when bad performance is found. Accordingly, the management of the public offices is responsible to follow up the implementation of economic policy and procedure, and submit reports on the performance of the economy (Ministry of Finance and Economic Development.MoFED, 2004). Therefore, the effectiveness of IA should receive the greater attention in research area to enhance the quality of its report. In line with this, the research had focused on the determinants of IA effectiveness in selected public sector offices.

2.2 Theoretical review

2.2. Internal Audit and related literature

The new Institute of Internal Audit (auditors, 2001), defined internal audit as: An independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to this definition the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization.

Internal audit are the mechanism through which auditors gather information about the effectiveness of the quality system selected from within the company but who are independence of the area, function or procedures being audited. On the other hand, the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality, system is assured (Ministry of Finance and Economic Development.MoFED, 2004).

The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

3.1 INDUSTRY PROFILE

The Financial Information Services industry provides the critical "oxygen" (data, news, and analytics) that powers global capital markets. Every investment bank, private equity firm, hedge fund, and corporate strategy team relies on these platforms to screen for targets, value companies, manage risk, and execute trades.

- **Market Structure:** It is a highly consolidated oligopoly. A few massive players control the vast majority of the market due to the incredibly high barrier to entry (it takes decades and billions of dollars to build a database of global financial histories).
- **The "Big Four" Competitors:**

1. **Bloomberg (The Bloomberg Terminal):** The undisputed king of real-time trading data and fixed income.
2. **S&P Capital IQ:** The leader in deep fundamental data, private company screening, and Excel integration for investment banking.
3. **FactSet:** A massive competitor favored by buy-side asset managers and portfolio managers.
4. **Refinitiv (Now part of London Stock Exchange Group / LSEG):** Strong in forex, commodities, and broad market data.

Market Size & Economics

- **Global Valuation:** The global financial market data and analytics industry is valued at approximately **$35 to $40 Billion USD** (roughly **₹2.9 Lakh Crore to ₹3.3 Lakh Crore**) and grows consistently at 5% to 7% annually.
- **Business Model:** The industry operates on an incredibly lucrative **B2B SaaS (Software as a Service)** model. Firms charge high annual subscription fees per user (a "seat" on Capital IQ can cost between $10,000 to $15,000+ per year), leading to highly predictable, recurring revenue streams and massive profit margins.

3.2 COMPANY PROFILE

S&P Capital IQ is a premier, web-based financial data, research, and analytics platform used by top-tier investment banks, private equity firms, asset managers, and corporate executives globally. It provides deep fundamental data, quantitative research, and screening tools on public and private companies globally.

- **Founded:** 1999 (Acquired by Standard & Poor's / McGraw-Hill in 2004)
- **Parent Company:** S&P Global Inc.
- **Global Headquarters:** New York City, NY, USA
- **Major India Presence:** Hyderabad (HITEC City), Gurgaon, and Ahmedabad. *(S&P Global maintains a massive workforce in India, with its Hyderabad offices acting as a critical hub for global data operations, software development, and quantitative analysis for the Capital IQ platform).*
- **Industry:** Financial Information Services / FinTech / Market Data
- **Website:** www.spglobal.com/marketintelligence

Key Executives (S&P Global)

- **Douglas Peterson:** President & Chief Executive Officer (CEO), S&P Global
- **Adam Kansler:** President, S&P Global Market Intelligence

History & Milestones

- **1999:** Capital IQ was founded as an independent startup in New York by a group of investment bankers and tech entrepreneurs aiming to build a more accessible, web-based alternative to the expensive, hardware-locked Bloomberg Terminal.
- **2004:** In a highly strategic move, McGraw-Hill (which owned Standard & Poor's) acquired Capital IQ for approximately $200 Million.
- **2015:** S&P acquired SNL Financial (a leading provider of sector-specific data) and merged it with Capital IQ to form **S&P Global Market Intelligence**, creating a data powerhouse.
- **2022:** S&P Global completed a mega-merger with IHS Markit (valued at $44 Billion), integrating massive amounts of alternative data, supply chain metrics, and fixed-income analytics into the broader Capital IQ and Market Intelligence ecosystem.

Core Business Segments & Offerings

Capital IQ is renowned for its depth of data and user-friendly interface. Its core verticals include:

1. **The Capital IQ Platform:** A web-based portal providing comprehensive financial statements, M&A transaction histories, executive compensation, and ownership data for over 100,000 public companies and millions of private companies.
2. **Capital IQ Office / Excel Plug-in:** Widely considered the industry gold standard for financial modeling. It allows investment bankers and analysts to seamlessly pull live financial data, historical metrics, and comps directly into Excel spreadsheets to build valuation models.

4.RESULT AND DISCUSION

4.1 Introduction

This chapter presents the results and discussion for the research finding obtained from the questionnaires. The main attempt of this study is to investigate the determinate of internal audit effectiveness in the public sector. It reports the investigation results obtained from each department head managers and internal auditors of the public sector offices covered in the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education. The inferential statistics results of the reliability analysis and the regression assumption test also reported and finally the results of hypothesis testing are presented.

4.2 Descriptive statistics

4.2.1 Response Rate

The questionnaires are distributed to each department head managers and the internal auditors of the selected regional level public sector offices. For these, 112 questionnaires are distributed to each department head managers and internal auditors and from which 101 giving the response rate of 90.18% and others 11 respondents are not return the paper means 9.82 %. This shows good response rate both for the department head managers and internal auditors.

4.2.2 Respondents profile

The table given below describes the general findings regarding the respondent's sex, age field study and levels of education the department head managers and the internal auditors. The respondents from each department head managers and internal auditors 59 (58.4%) were males and 42 (41.6%) were females. The majority of the ages of respondents of the both managers and internal auditors are fall under the age of 30-39 (37, 36.6%), 20-29 (26, 25.7%), and the rest falls in the age interval of 40–49 (19, 18.8%) and 50-59 (16, 15.8%); and above 60 (3, 3.0%) the last one.

Table 1respondent's general profile

Demographic question		Responds	
		Frequency	Percentage
Sex	Female	42	41.6
	Male	59	58.4
	Total	101	100
Age	20 to 29	26	25.7
	30 to 39	37	36.6
	40 to 49	19	18.8
	50 to 60	16	15.8
	Above 60	3	3.0
	Total	101	100

Source: Field survey SPSS version 24 output result (2024)

As you below figure 4.1 in the case of field of study the respondents were composed of from Accounting (38, 37.6%), Management (46, 45.5%), Economics (17, 16.8%). Here, the majority of managers and internal auditor were studies management, accounting and economics fields

5. Conclusion and Recommendation

5.1 Summary of findings

This the last chapter aim to conclude the study, according to the regression output all these variable was positively contributed for the effectiveness of internal audit functions in Afar Regional State Government Public Sector Offices. Therefore, the public sector office should give emphasis to use these determinant variables to make their service delivery effective, efficient and economical throughout their offices. Moreover, the management support, the availability of approved internal audit charter and quality of internal audit work were the major determinants of IAE in the public sector. However, the organizational independent of IA and the existence of adequate and competence internal auditor's staff were not significantly important for the IAE of public sectors as of the above three variables.

This research finds that the combined measure of management support, organizational independence of internal auditors, the existence of adequate and competent IA staff, the availability of approved internal audit charter and quality of internal audit work accounts for 60.90% ($R^2 = 0.609$) variance for the internal audit effectiveness in identifying noncompliance activities and added contributions to the public sector offices. That means, the influence of these five independent variables contributed for the dependent variable IAE were 60.90%, and the remaining 39.10% were other variables that are not included in this study.

5.2. Conclusion

The study is found out due to its important role it plays for the overall management system internal audit is the major mechanism to guarantee sound corporate governance. The existence of effective internal audit in the office links with improved organizational efficiency and effectiveness, internal control risk management system, reduce information asymmetry during decision making, improved the performance of the overall activities and ensures internal reliability of financial reporting process. By taking this feature into consideration, this study was identified factors that determine the IA effectiveness in the public sector offices and then analyzed the organizational scopes in which the public sector office should carry out to enhance the IA effectiveness. And also by testing of the proposed hypotheses showed relations of these independent variables within the dependent following conclusions were drawn.

- ❖ The IAE of the public sector office increases, when there were more supports from the management, have quality of internal audit work mutual with the availability of approved IA charters. The regression analysis (shown on table 4.9) shows very strong contributions of these variables for the IAE. Therefore, the overall effect of the management support, quality of internal audit work and the availability of approved IA charter in the public sector is very important for the IAE in the public sector offices without ignoring the other two statistically insignificance variables organizational independence and adequate and competent internal audit staffs, because they have a positive sign of beta and contribute for the 60.90% of the variances for the IAE. Thus, neglecting these two variables may cause to decrease the value of IAE variance that was obtained from collective contribution of the five independent variables.

- In addition, the correlation analysis (shown on table 4.6) shows all the independent variables have the direct effect of the internal audit effectiveness (IAE) and the regression result also shows all the independent variables have a positive sign of coefficients (shown on table 4.9) with IAE in the public sector offices. However, the adequate and competent of internal audit staffs and the organizational independence of IA were statistically not significant enough at 5% sig. level to contribute for the IAE in the public sector offices, therefore this conclusion requires future research should consider for obtaining the influence of these variables on the IA effectiveness.

- The correlation analysis (see table 4.6) showed the contributions of the independent variables to the internal audit effectiveness. For instance, the adequate and competent of internal audit staffs and the organizational independence of internal auditors were not significantly correlated with internal audit effectiveness to the public sector offices. This conclusion requires future research should consider the impact of these determinants on internal audit effectiveness.

5.3. Recommendations

Later observing the research findings and realized results with regard to the main objective of this study to identify the major determinants of IAE in the public sector offices and also to verify the hypotheses, the researcher provides the following recommendations to the public sector offices, the internal auditors, the BoFED, the MoFED, the regional government audit general and the educational institutions.

- ✓ The finding of this study proved that the management support, the quality of internal audit work, and the availability of approved IA charter were statistically significant and positively related with the IAE in the public sector offices. Thus, the public sector office should support more for the internal audit functions by facilitating the IA works, should recruited more adequate and competent IA staff and give sufficient training and professional certification for the existing IA staffs, and should maintain the approved IA charter and workable manuals for their office because it directs the overall activities of the internal auditors in line with IIA standards and the office policies and guidelines.

- ✓ The internal auditors of the public sector office recommended to maintain and improve their effective contribution for the IAE in their office, by using the supports from their offices management team appropriately, by improving their professional certification in line with the institute of internal audit standards and organizational guidelines and by introducing themselves with modern technologies like software, application that improve their IA function in good way for their office. .