

Factors affecting the internal audit effectiveness: A survey of the Saudi public sector



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ABSTRACT

This study assesses factors influencing internal audit effectiveness (IAE) in Saudi Arabia. Data were obtained from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both management's and the internal auditors' perspective. Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department. Saudi Arabia is representative of many developed and developing environments, and its recent tradition of governance and audit is mirrored in countries worldwide. Moreover, its specific cultural traditions involving clan and tribal allegiances, and pervasive and core religious beliefs, characterize the GCC countries, the Arab World generally, and indeed, many other developing countries, irrespective of wealth. Thus, links between management support and internal audit effectiveness are likely generalizable beyond the Saudi public sector context.

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1. Introduction

Studies of internal audit effectiveness (IAE) are few in number compared to studies of external audits. This research investigates factors that may influence IAE within public sector organizations in Saudi Arabia, a nation just beginning to use internal audits.

The traditional role of internal auditing focused on monitoring internal control and financial compliance. However, internal auditing has grown significantly in importance in recent years, towards a wider internal consulting role within the firm's risk management function. In this context, it is important to investigate how effectively internal auditing serves its ascribed purpose. This study builds on a number of previous international studies that investigate and evaluate aspects of internal audit performance and effectiveness (e.g., Cohen & Sayag, 2010 – Israel; Arena & Azzone, 2009 – Italy; Ahmad, Othman, & Jusoff, 2009 – Malaysia; Mihret & Yismaw, 2007 – Ethiopia; Dittenhofer, 2001 – USA; Haimon, 1998 – Israel; Asairy, 1993 – Saudi Arabia). Through research in Italy, Arena and Azzone (2009) found that characteristics of the internal audit team, audit processes and activities, and organizational links influence IAE. Using a mixed interview and questionnaire methodology in Ethiopia, Mihret and Yismaw (2007) identified organizational characteristics that improve or degrade IAE. They found that internal audit quality strongly influences IAE. However, organizational setting and auditee attributes were

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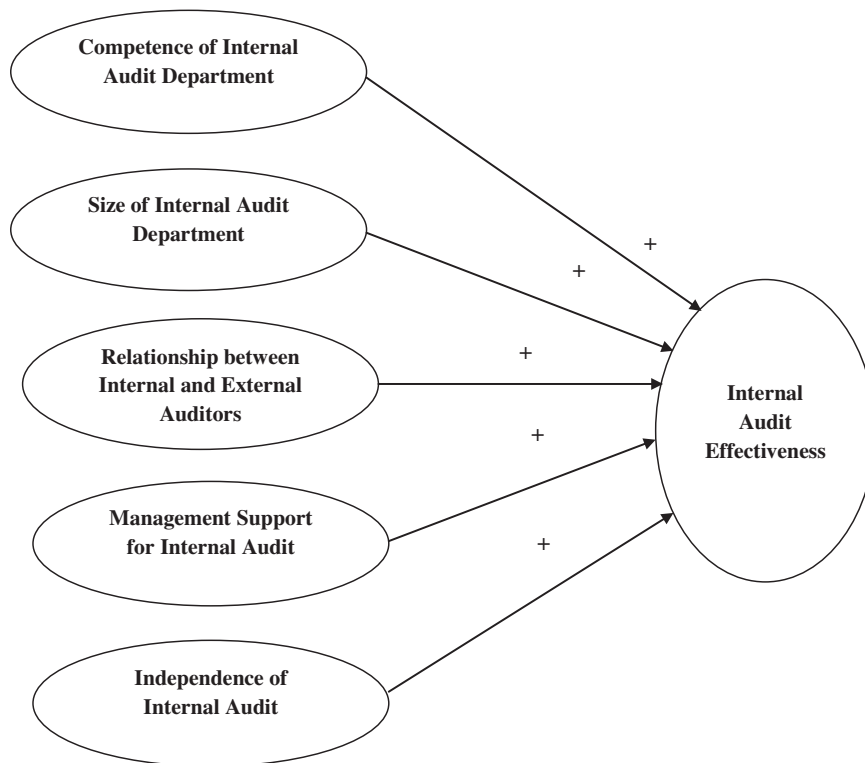


Fig. 1. Model of the research.

much weaker influences. Furthermore, existing research has used various measures of IAE, such as implementation of internal audit recommendations (Arena & Azzone, 2009; Van Gansberghe, 2005), or compliance with *International Standards for the Professional Practice of Internal Auditing* (ISPPIA) (Fadzil, Haron, & Jantan, 2005; Spraakman, 1997). Lampe and Sutton (1994) identified 15 criteria that contribute to IAE, categorized as planning, fieldwork, and reporting and review.

This study employs several measures of IAE, including the department's perceived ability to plan, to improve the organization's productivity, to assess the consistency of results with established objectives and goals, to implement internal audit recommendations, to evaluate and improve risk management, to evaluate internal control systems, and to provide recommendations for improvement. Furthermore, this paper attempts to explain stakeholder perceptions of IAE using measures of competence of auditors, size of internal audit department (IAD), relationship between internal and external auditors, independence of internal audit, and extent of management support for the internal audit function. The relationship between these factors and IAE is shown pictorially in Fig. 1. Tables 1–5 indicate the measures for each variable. The factors were identified from a review of previous academic literature studying the internal audit function. The literature explored provided examples of practice in Europe, Africa, America, Australia, Asia, and the Middle East (e.g., Alzeban & Sawan, 2013 – Saudi Arabia; Soh & Bennie, 2011 – Australia; Ahmad et al., 2009 – Malaysia; Mulugeta, 2008 – Ethiopia; Mihret & Yismaw, 2007 – Ethiopia; Ali, Gloeck, Ali, Ahmi, & Sahdan, 2007 – Malaysia; Sarens & Beelde, 2006 – Belgium; Carcello, Hermanson, & Raghunandan, 2005 – US; Brierley, El-Nafabi, & Gwilliam, 2003 – Sudan; Gwilliam & El-Nafabi, 2002 – Sudan; Brierley, El-Nafabi, & Gwilliam, 2001 – Sudan; Schyf, 2000 – South Africa; Haimon, 1998 – Israel; Wolderupheal, 1998 – Ethiopia; Asairy, 1993 – Saudi Arabia). Guidance set out in the ISPPIA issued by the Institute of Internal Auditors (IIA) and other related documentation was also considered.

Much research in this area used external auditors' perceptions to evaluate IAE, with limited attention paid to perceptions of other stakeholders and interested parties. This study offers a broadened approach by exploring the perceptions of different groups when assessing IAE. For example, managers of audited units are used as evaluators; prior studies tended to use external auditors or chief audit executives (CAE) as evaluators of IAE.

This study has implications for all Arab countries, the Middle East, and countries with similar cultural dimensions, but especially for Saudi Arabia. It examines IAE in an oil-based economy in which a robust tribal culture straddles liberal market capitalism and Islamic ideology. Further, Saudi society is predicated on the notion of family and friendship linkages and religious imperatives. Thus it is highly likely that activities undertaken by the internal audit function, which operates as a monitoring and control mechanism to remove personal interest from financial dealings, may be compromised. Hence, this study seeks to establish how and whether these underlying factors affect IAE and the corporate governance of organizations. This motivation is important because little research to date has studied the relationship between such factors and IAE yet

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