

Internal Audit Practices in State Universities: Evidence from Sri Lanka

V Anojan

*Department of Accounting, Faculty of Management Studies and Commerce,
University of Jaffna, Sri Lanka*
v.anoabt@gmail.com

ABSTRACT

The primary purpose of this study is to investigate the level of internal audit practices in the state universities of Sri Lanka. The researcher selected two high, middle, and bottom national and international-rank Sri Lankan state universities to find out significant mean differences regarding internal audit practices among the selected top, middle, and bottom rank state universities in Sri Lanka. The researcher used mean difference analysis; the t-test confirmed that there are no significant mean differences regarding internal audit practices among selected top, middle, and bottom-rank state universities in this study. Descriptive analysis shows that internal audit practices in state universities are below than moderate level in selected state universities in Sri Lanka.

Keywords: Internal Audit, Independent, Resources, Satisfaction, State Universities.

1. INTRODUCTION

Internal audit plays an important role in the effective and efficient performance of an organization. According to ACCA (1999), an internal audit covers a systematic review of the developed internal control system and reports on the adequacy of the internal control system regarding management, finance, operations, budget, and reliability.

The Institute of internal auditors (IIA) research foundation (2004) states an internal audit is an independent assurance and consulting service to improve and increase the performance of the organization. It expects to evaluate and improve the risk management, governance, and internal control of the organization. Sarens and Beelde (2006) stated that an internal audit is needed by the management for better control of the operations of the organization and review of its operation. International Standards for Auditing (ISA) 610, very clearly states that an internal audit is an appraisal activity

and service to the entity. Its major activity is monitoring the internal control of the organization.

Internal audit is one of the essential functions in the public and private sectors. Internal audit is one of the key parts of every organization in the world. It covers four major practices and scope related to the following (CA, Sri Lanka), such as (i) monitoring of internal control, (ii) examination of financial and operation information, (iii) review of economy, efficiency, and effectiveness of operation (performance audit) and (iv) review of compliance with laws, regulations, other external requirements with management policies and system. Internal auditors are the permanent employees of that particular organization and they work every working day of the firm.

The public sector has high level of accountability for its financial management and operations to the general public of the country. Public sector spends a huge amount of money to provide better services to the general public of the country. The government spends a considerable amount of money on the education sector of the country. Here, universities are the higher education institutions in Sri Lanka, which consume a significant amount of public finance. Therefore, effective and efficient operations, reliability of financial reporting, and legal compliance of state universities should be ensured. Internal audit has the above role in the public sector. This study mainly focuses on the examination of internal audit practices in state universities to find the level of practices to provide some inputs for the betterment of internal audit practices and valuable internal control systems.

This study examines the level of internal audit practices regarding Administration System Review (ASR), Control on Assets Usage (CAU), Control on Payment of Research Grants & Allowances (COPRGA), Control of Purchase & Procurement (COPP), and Legal Compliance (LC) in the state universities of Sri Lanka.

1.1 Statement of the problem

Internal audit practices help to the effective usage of the resources, add value to the organization, and quality output of the organization. Every state university has a separate internal audit branch so it has vital responsibility for effective activities of the

state universities in Sri Lanka. According to internal audit division of the state universities the followings are responsibilities and functions of the internal audit division; the internal audit division is expected to carry out the following functions (FR 133 and FR 134) and reporting on financial and operational functions of the University, ascertaining the effectiveness of the systems of internal control adopted in preventing and detecting waste, idle capacity and extravagance of resources, carrying out special investigations as requested by the Vice Chancellor and the Council, making suggestions to improve functional efficiency of the University, providing guidance to all administrative and financial divisions on financial regulations and guidelines, pre-audit of all payments with regard to gratuity, provident fund, pension and bonds and agreements of the staff and capital works of the University, maintenance of audit query register and coordinating the matters relating to audit queries and directives of Committee on Public Enterprises (COPE) and convening meetings of the audit committee of the University and follow up work.

According to the Committee on Public Enterprises Reports (COPERs, presented on the 11th of December 2011, 23rd of July 2013, 05th of August 2014, 14th of November 2014, and 07th day of November 2019), a number of internal control issues revealed in the state universities of Sri Lanka. According to the COPERs on state universities, it can be seen that there is a problem regarding effective and efficient operations, reliability of the financial information, and legal compliance of the state universities in Sri Lanka. Most of the COPE reports highlighted several internal systems, control weaknesses, and improper financial management of the state universities in Sri Lanka. Further, there are several audit queries on the state universities by the state audit office in Sri Lanka. The above COPE reports audit queries and world rank of the state universities reveals that, ineffective and inefficient operations, inadequate internal system, control weakness, and improper administrative and financial management of the state universities in Sri Lanka. Therefore, the top management of the state universities has to improve their administrative and financial management in Sri Lanka. Internal audit contributes a significant level in the effective and efficient administrative and financial management of the organization. Therefore, such internal audit division's practices should be verified and compared with other similar institutions for the measurement of its current level of practices and any improvement in the future. As per the national rank and international rank of Sri Lankan state universities, it can be seen that there is

a considerable deviation regarding rank among Sri Lankan state universities. In this situation, generally, a question can arise whether there is an adequate internal audit practice and its efficiency and effectiveness in the state universities of Sri Lanka.

The following Research Question (RQ) was formulated and tested in this study.

RQ: Are there any significant mean differences regarding internal audit practices and satisfaction of administrators among the selected top, middle, and bottom-rank state universities in Sri Lanka?

1.2 Objectives of the study

Primary objective of this study is to investigate significant mean differences regarding internal audit practices among the selected top, middle, and bottom rank state universities in Sri Lanka. The secondary objective of the study is to reveal the level of satisfaction of administrators regarding internal audit practices in selected state universities in this study.

2. LITERATURE REVIEW

Blackmore (2004) examine the adoption of internal academic auditing by Riverbank University. The main objective of the study is to find out the gap between the theory regarding standards, and guidelines of the British and the actual practice of internal academic audit. The study reveals there is a low level of internal academic audit especially regarding training and selection of internal auditors for the academic audit. Hanim, Haron, and Jantan (2005) study the quality of internal control systems through the primary data. Researchers find internal control system of the firm is significantly influenced by a number of professional ethics such as professional competency and objectivity of internal auditors. Further, researchers find risk management of internal control system are strongly impacted by internal audit management, performance, planning, and reporting.

Mihret and Yismaw (2007) study the effectiveness of internal audits in the state higher education institution in Ethiopia. Researchers want to find out the most impact factor on the effectiveness of internal audit out of identified and selected four key factors in this study. Results of the study reveal scope, proficiency, planning, recommendations

and professional ethics of the internal audit division were poor levels. Further, researchers find the quality of the audit and support from the management are significant factors influencing the effectiveness of internal audits.

Yee, Yeung, and Cheng (2008) find internal audit function is a significant and needed part of the structure of the organization and it is a value addition independent service of the organization in Singapore. This study reveals managers are satisfied with the functions of the internal audit division and they accepted that internal audit is a one of the value addition processes of the organization.

Theofanis, George, Evaggelos, and Ioannis (2010) state that the internal audit function is important for the total quality management due to the globalization. Researchers focus to find out the relationship between corporate governance characteristics and internal audit functions. This study reveals internal audit is one of the key functions for the effective and efficient corporate governance practices in the firm.

Cohen and Sayag (2010) find support from the management, professional competency, and independence of internal auditors are vital to impact on the internal audit effectiveness further career advancement, promotion, career path and continuous professional development of the internal auditors will lead for the high level of dedication and commitment of the internal auditors.

Chiggai (2016) investigate the impact of the internal audit system on the performance of the organizations in Kenya. Primary data was collected from the sample of respondents through a stratified sampling method. Statistical analysis of the study confirms risk management does not impact significantly on the performance of the selected firms of the study. There is a negative relationship between risk management and the performance of the management in this study. Results of the study reveal control environment is significantly impacting on the performance of the firm and it is a positive relationship. Further, the researcher finds control activities impact significantly on the performance of the organization in this study. The researcher recommends review of risk assessment should be carried out by a more experienced and independent individual of the firm.

Madawaki, Ahmi, and Nasibah (2017) compare internal audit functions between the private and public sectors. The findings of the study clearly reveal that there is no significant mean difference regarding internal audit function in the private and public sectors. Results of the study confirm that there is a considerable difference regarding internal audit reporting between the private and public sectors. Also, there is a small difference regarding internal audit interaction with external auditors between the above two sectors.

Mihai and Frumuşanu (2010) state that internal audit activities function as separate divisions internationally. Researchers recommend internal audit should be established as a separate division for the better performance of the internal audit division under the corporate governance of the organization.

Anna, Stina, Niina, and Riikka (2018) find there is a significant difference regarding the regulatory framework on internal audit and management of internal audit operations in selected countries of the study. Researchers recommend internal auditing of every country should follow a standard regulatory framework on internal audits for the similar implementation and practices regarding internal audits in all the countries. It will lead to the better and unique performance of the internal audit division further it is good for comparing internal audit performance among the countries.

Rehana (2010) reveals management corporation plays a key role in the assessment of a corporation between internal and external auditors. Further, researchers find there is an insignificant difference regarding the corporation of internal and external auditors between local and foreign banks in Bangladesh. The following hypothesis was developed and tested based on the depth of the literature review, discussion with the internal auditor of the state university, and adequate experience and knowledge of internal audit practices in state universities of Sri Lanka.

H₁: There is a significant mean difference regarding internal audit practices and satisfaction of the administrators among selected state universities in Sri Lanka.

H_{1a}: There is a significant mean difference regarding internal audit practices and satisfaction of the administrators between selected top-level and middle-level rank state universities in Sri Lanka.

H_{1b}: There is a significant mean difference regarding internal audit practices and satisfaction of the administrators between selected top-level and bottom-level rank state universities in Sri Lanka.

H_{1c}: There is a significant mean difference regarding internal audit practices and satisfaction of the administrators between selected middle-level and bottom-level rank state universities in Sri Lanka.

3. METHODOLOGY

3.1 Sampling

As of 01.01.2021, there were fifteen (15) state universities in Sri Lanka. As per Sri Lankan and world rank of state universities in Sri Lanka by webometrics (July 2018), first and second rank state universities (top rank universities), seventh and eighth rank state universities (middle-rank universities), and 13th and 14th rank state universities (bottom rank universities) were considered in this study.

3.2 Data

Primary data used in this study, those primary data were collected through questionnaires from academic and non-academic administrators of selected state universities in this research. This study involves with mostly primary data and other needful secondary data as well. Here questionnaire method is more appropriate to collect the primary data. The questionnaire initially was developed with the help of the internal audit plans of the state universities in Sri Lanka and the depth of the literature review then it was tested through a pilot study. A pilot study was conducted in the Faculty of Management Studies and Commerce, University of Jaffna, Sri Lanka by researchers. The final questionnaire was developed with the help of a pilot study which was used to collect the data in this study. Data for this study was collected from the administrators such as Vice-Chancellors, Deputy Vice-Chancellors, Registrars, Deans, Heads, and Assistant Registrars of each faculty of selected state universities in Sri Lanka.

3.3 Respondents

Researcher selected six state universities and considered only academic administrators (Vice-Chancellors, Deputy Vice-Chancellors, Deans, and Heads) and non-academic administrators (Registrars and Assistant Registrars of Each Faculty). According to that, the population of the study is 351 respondents, researcher issued a questionnaire to 351 respondents through direct visits and Google forms. The researcher collected 184 questionnaires then 11 questionnaires were rejected due to the non-completion of questions. According to that respondent, the rate is 52.42 % and the accepted rate is 49.28 % in this study.

4. RESULTS

4.1 Descriptive statistics

Table 1: Descriptive Analysis Comparison among Selected State Universities

Universities	Mean of ASR	Mean of CAU	Mean of COPRGA	Mean of COPP	Mean of LC	Mean of S
Top 1	2.9417	3.3600	3.3687	3.3219	3.2875	3.0781
Top 2	2.8214	3.3571	3.3571	3.1473	3.1786	3.0223
Middle 1	2.7101	3.5087	3.2935	3.2364	3.0036	2.9864
Middle 2	3.0933	3.4720	3.6250	3.4100	3.2467	3.2150
Bottom 1	2.7899	3.6522	3.9185	3.5652	3.3986	3.2935
Bottom 2	2.8788	3.6000	3.5455	3.3295	3.2576	3.1932

According to the above table 1, it can be seen that internal audit practices on administration system review are below than moderate level in all the selected universities except one middle-rank university. Academic and non-academic staff's satisfaction with the internal audit practices is below the moderate level in one of the selected middle-rank universities (Middle 1), however, it is more than moderate level (> 3.0) in other selected state universities in Sri Lanka. Further, the descriptive analysis highlights that internal audit practices on all tested variables in this study, are below than satisfactory level (< 4.0) in the state universities of Sri Lanka.

4.2 Independent samples t-test

Table 2: Independent Samples T Test between Top and Middle-Level Rank State Universities in Sri Lanka.

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	Sig. (2-tailed)
ASR	Equal variances assumed	3.071	.082	.426	.671
	Equal variances not assumed			.428	.670
CAU	Equal variances assumed	5.012	.027	-1.254	.212
	Equal variances not assumed			-1.246	.215
COPR GA	Equal variances assumed	.156	.694	-.415	.679
	Equal variances not assumed			-.414	.680
COPP	Equal variances assumed	.504	.479	-.460	.646
	Equal variances not assumed			-.461	.646
LC	Equal variances assumed	.729	.395	1.440	.152
	Equal variances not assumed			1.442	.152
S (IAQ)	Equal variances assumed	.485	.487	-.107	.915
	Equal variances not assumed			-.107	.915

Table 2 clearly shows that there is no significant mean difference regarding independent and dependent variables of the study between the selected top and middle level rank state Universities in Sri Lanka. Further it can be seen that mean value of all the variables are almost equal in top and middle level state universities in Sri Lanka. Due to that middle rank state universities cannot adopt internal audit practices of top rank universities to increase the quality of internal audit in Sri Lankan state Universities. According to the above table, H_{1a} is rejected in this study.

Table 3: Independent Samples T Test between Top and Bottom Rank State Universities in Sri Lanka.

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	Sig. (2- tailed)
ASR	Equal variances assumed	1.318	.254	.626	.533
	Equal variances not assumed			.655	.515
CAU	Equal variances assumed	.050	.824	-1.772	.080
	Equal variances not assumed			-1.742	.086
COPRG A	Equal variances assumed	.195	.660	-2.960	.004
	Equal variances not assumed			-2.930	.005
COPP	Equal variances assumed	.942	.334	-1.915	.058
	Equal variances not assumed			-1.838	.071
LC	Equal variances assumed	.159	.691	-.849	.398
	Equal variances not assumed			-.834	.407
S (IAQ)	Equal variances assumed	.459	.500	-1.556	.123
	Equal variances not assumed			-1.586	.117

Table 3 reveals that there is no significant mean difference regarding internal audit practices and satisfaction of the administrators between selected top and bottom level rank state Universities in Sri Lanka. However, there is a mean difference regarding internal audit practices and satisfaction of administrators between selected top and bottom-level rank state Universities in Sri Lanka. Especially there is a significant mean difference regarding internal audit practices on control of payment, research grants &

allowances between selected top and bottom-level rank state universities in Sri Lanka. According to the above table, H_{1b} is rejected in this study.

Table 4: Independent Samples T Test between Middle and Bottom Rank State Universities in Sri Lanka.

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	Sig. (2-tailed)
ASR	Equal variances assumed	5.836	.017	.194	.847
	Equal variances not assumed			.218	.828
CAU	Equal variances assumed	4.465	.037	-1.06	.289
	Equal variances not assumed			-.950	.347
COPR GA	Equal variances assumed	.705	.403	-2.84	.005
	Equal variances not assumed			-2.71	.009
COPP	Equal variances assumed	.098	.755	-1.42	.158
	Equal variances not assumed			-1.42	.159
LC	Equal variances assumed	.082	.776	-1.96	.053
	Equal variances not assumed			-1.96	.053
S (IAQ)	Equal variances assumed	1.728	.192	-1.46	.146
	Equal variances not assumed			-1.50	.138

Table 4 shows, there is no significant mean difference regarding internal audit practices and satisfaction of administrators between selected middle and bottom level rank state universities in Sri Lanka. However, there is a mean difference regarding internal audit practices and satisfaction of administrators between selected middle and bottom level rank state Universities in Sri Lanka. Specially, there is a significant mean difference regarding internal audit practices on control of payment, research grants & allowances

between selected top and bottom-level rank state Universities in Sri Lanka. According to the above table, H_{1c} is rejected in this study.

5. CONCLUSIONS

Best internal audit practices are vitally important for the effective and efficient operations, reliability of the financial information and legal compliance of the organization. Based on the results of the study, it can be concluded that internal audit practices are not at a satisfactory level of internal audit practices based on the perception of the administrators in selected state universities of Sri Lanka. Internal audit practices should be considered and improved by the top management of the state Universities in order to increase the performance of the internal audit division and the overall performance of the state Universities. It may lead for the establishment of a better internal audit system, its implementation, and the best usage of resources of the state universities. Also, it can be expected that those initiatives will contribute to better national and international rank of state universities in Sri Lanka. Further, the internal audit division should be facilitated with adequate human and other physical resources for the effective and efficient functions of the said division. There is no significant mean difference regarding internal audit practices among the selected state Universities in this study. Top management ought to find out the best internal audit practices from well-ranked Universities which could be adopted in state universities of Sri Lanka. Finally, it can be concluded that the internal audit practices of state universities should be improved for the better overall performance of state universities in Sri Lanka.

According to the findings of the analysis and answers to open-ended questions in the questionnaire by the respondents of the study, the following are recommended by the researcher:

- Top management should consider improving internal audit practices regarding tested independent variables of the study in state Universities of Sri Lanka, especially the internal audit practices regarding administrative system review which shows below moderate level. The administrative system is a vital part of the education system and the higher education system as well. It is most important for the effective and efficient operations of the state Universities. Also, it may lead to an increase in the performance of the university which may

lead to the effective usage of the resources and increase the high national and international rank for the state Universities of Sri Lanka.

- Each faculty of state Universities has a post of Assistant Registrar and most of the faculties have Assistant Bursar posts as well. This practice helps for the effective and efficient operations regarding the administration and financial management of the state Universities in Sri Lanka. This practice is called decentralization of the administration. Similarly, the internal audit division also should be decentralized in state Universities by creating a cadre of internal audit staff for each faculty and should develop a policy for determining the maximum service period of such internal audit staff in order to avoid familiarity threats. Generally, the maximum service period of three years at a faculty is more appropriate and applicable to in-state Universities.
- Top management of the state university may create two top positions for audit of academic and non-academic activities with the expert in that particular field or they may consider developing and practicing an active committee regarding monitoring and improvement of the financial and non-financial activities of state Universities in Sri Lanka.
- Further, top management of the state university should find the well and adequate internal audit practices from well-ranked national and international Universities. It may help to develop an effective and efficient internal control and internal audit system for state Universities of Sri Lanka.

REFERENCES

- ACCA. (1999), "Internal Control: Guidance for directors on the Combined Code". [online] Available at: <<https://www.icaew.com/technical/corporate-governance/codes-and-reports/turnbull-report>>.
- Anna, J., Stina, N., Niina, S. and Riikka, K. (2018), "Internal audit in the public sector – comparative study between the Nordic countries: The development of internal auditing within the public sector in the Nordic countries". *Icelandic Review of Politics & Administration*, 14(2), pp.19-44.
- Blackmore, J. (2004), "A critical evaluation of academic internal audit". *Quality Assurance in Education*, 12(3), pp.128-135.

- Chiggai, H. (2022), “Effect of Internal Audit Practices on Organization Performance: A Case of Regulatory Bodies in Kenya”. [online] 41.89.49.13. Available at: <<http://41.89.49.13:8080/xmlui/handle/123456789/1162>>.
- Cohen, A. and Sayag, G. (2010), “The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations”. *Australian Accounting Review*, 20(3), pp.296-307.
- Committee on Public Enterprises, “Committee on Public Enterprises Reports” Presented on 11th of December 2011, 23rd of July 2013, 05th of August 2014, 14th of November 2014 and 07th of November 2019’, *The Democratic Socialist Republic of Sri Lanka*.
- Hanim, F., Haron, H. and Jantan, M. (2005), “Internal auditing practices and internal control system”. *Managerial Auditing Journal*, 20(8), pp.844-866.
- IIA. (2004), “Institute of Internal Auditors Research Foundation - [PDF Document]”. [online] Available at: <<https://vdocuments.net/institute-of-internal-auditors-research-foundation.html>>.
- Madawaki, A., Ahmi, A. and Nasibah, H. (2017), “Internal audit function: a comparison between private and public sector in Nigeria”. *The 17th Annual Conference of the Asian Academic Accounting Association (2017 Four A Conference)*.
- Mihai, J. and Frumușanu, M. (2010), “Internal Audit Comparative Analysis - Management Control Concepts”. *Annals of the University of Petrosani, Economics*, 10(1), pp.129-136.
- Mihret, D. and Yismaw, A. (2007), “Internal audit effectiveness: an Ethiopian public sector case study”. *Managerial Auditing Journal*, 22(5), pp.470-484.
- Rehana, F. (2010). “An Empirical study on audit expectation gap: Role of auditing education in Bangladesh”. *Munich Personal RePEc Archive (MPRA) - Paper 22708*, Stanford University.
- Sarens, G. and Beelde, I. (2006), “Internal auditors' perception about their role in risk management”. *Managerial Auditing Journal*, 21(1), pp.63-80.
- Theofanis, K., George, D., Evaggelos, G. and Ioannis, T. (2010), “Internal auditing as an effective tool for corporate governance”. *Journal of Business Management*, 2 (1), pp.15-23.
- Treasury.gov.lk. (1992), “Financial Regulations of The Government of The Democratic Socialist Republic of Sri Lanka”. [online] Available at:

<<https://www.treasury.gov.lk/api/file/88bd6063-fe94-40b7-aa3d-d83196eb7f92>>.

Yee, R., Yeung, A. and Cheng, T. (2008), “The impact of employee satisfaction on quality and profitability in high-contact service industries”. *Journal of Operations Management*, 26(5), pp.651-668.