

## **Frame work for Government Internal Audit Profession Strategy in Sudan**

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### **Abstract**

This article tackles the impact of competency and organizational independence on Sudan government internal auditor's role with a view of formulating a future strategy that satisfies expectations of all concerned parties. The paper comes as a response to the increasing role of the internal auditor in attaining a satisfactory level of transparency and governance. Today, the internal auditor's role has shifted from being a mere voucher checker to strategic consultant who advises the top management on issues that facilitate proper and smooth functioning of the organization activities. The paper has found out that the positioning of the government internal audit administration at the cabinet level will enhance the internal auditor's independence and ability to freely review the work of all ministries. The paper has also found that setting of a separate budget for the government internal auditor will protect the internal auditor against managers' revenging decisions in case of writing aggressive audit reports. The paper also provides empirical evidence that learning and experience before enrollment has a positive effect on the audit efficiency.

**Key words.** organizational independence, competency, control, professional courage, experience

### **- I Preface -**

It becomes a commonplace today that the internal auditor plays a very important role in assisting public utilities managers to a better use and control of public money. The role of the internal auditor has extended beyond the day- to- day checking to a real participation in strategy setting. Because of this relatively new trend in the internal auditors' role, this paper has investigated

factors which enhance a situation whereby the government internal auditor becomes more competent. The factors that have been addressed by the paper include the reporting level, a separate budget, and the pre-enrolment experience for the would-be internal auditor.

## **-2 Theoretical framework of the research.-**

### **1-2 Definition of internal auditing.-**

The conceptual framework of auditing contains various definitions for the term audit. Each definition emphasizes a specific and a different aspect of auditing. For example Emile W. (1997, p.1) defines audit as a process carried out by qualified auditor in order to form an opinion as to the truth and fairness of financial statements. Larry F. (1999, p.9) describes auditing as a set of policies and procedures designed and installed by the management in order to provide assurance regarding the achievement of the company objectives. The first definition emphasizes a financial role for the internal auditor, whereas the second emphasizes a managerial role. Despite that, both definitions tend to be more operational than conceptual. A purely conceptual definition for auditing which gains wide acceptance and recognition is provided by the Institute of Internal Auditors (IIA). The IIA defined auditing as , an independent, objective, assurance and consulting activity that adds value to and improve an organization accomplish its objectives ... (Timothy, J. 2008, p. 20. Alan, M et al. p.264. William, C. et al p.985. Audrey, A. et al. p.20).

### **2-2 Control and internal audit.-**

Control is an old function. Nevertheless, its conceptual and operational framework is always evolving. It spreads everywhere, and covers all aspects of human life. It is practiced by all people regardless of education, age, and gender. It seems that the mission of mankind on earth is to control the environment in which he lives. Control minimizes the risk of uncertainty and increases the likelihood that the organizational objectives could be properly achieved.

Internal audit is one of the means that is used by managers to exercise control over an ever-changing, man- made environment. This man- made environment is well- manifested in a complex interacting systems which makeup our today organizations. Internal auditor primary role is to make sure that these systems work as planned for by the organization. In order to achieve this end, the internal audit profession should meet the “QETI”

requirements. **That is:**

**Qualifications.**

**Experience.**

**Training.**

**Independence.**

Qualification, experience, and training are the cornerstones of the internal auditor competency. Competency is cited as one of the four foundational values of the audit profession that is integrity, objectivity, confidentiality, and competency (Bruce, et al 2009).

The incumbent for the internal audit profession should possess at least a B.Sc in accounting and/or a professional certificate. A high standard of academic qualification is a good starting point for creating a competent and skilful auditor. If the internal auditor discovers that he is illiterate of the accounting and financial environment in front of those who are supposed to be audited, then he/she will eventually lose courage, and work initiatives. That is why Bruce, et al (2009) reported courage as one of the six cultural pillars that differentiate the truly influential audit department from those that don't possess enterprise wide influence. Losing professional courage and inner intellectual solidarity may undermine the whole audit mission and consequently result in a weak and poor auditing report. Therefore, the internal auditor should possess academic and professional superiority over other officers within the accounting department. He/she should know how managerial and accounting systems work and interact with each other. Internal auditors need a strong educational background, inquiring mindsets, and the ability to communicate well and to get on with people of widely differing background (Gray&Manson, 2000, p.230). Timothy et al. (2008, p.23) states that an entry level education is a basic requirement for both external and internal auditor.

The good conceptual understanding of accounting and audit methods is not sufficient for carrying out a satisfactory level of internal audit practice. The person who is supposed to work as an internal auditor should spend a reasonable period as an accountant. This period of fieldwork will familiarize the future auditor with what actually managers and accountants do in practice. This in turn develops and strengthens the auditor's personal skills of tracking the behavior of officers working within the organization. Understanding how the business is actually working and where potential problem could be found comes through prior experience (David, S. 1987, p.5)

The environment in which the internal auditor works is always changing.

The internal auditor should respond to this changing environment, otherwise his practice will be lacking far behind the prevailing economic and social stage. For example the application of computer system in accounting and management theme has faced the internal auditor with unexpected challenges. He either knows how this machine works or he will be auditing around the computer. To continue hand by hand with this changing environment, the internal auditor should receive continuous on-job training and learning sessions. That may help the internal auditor to become up-to-date and increases his/her awareness of the need to respond to the surrounding economic, cultural, and social changes. The internal auditing department should have the necessary skills and knowledge to meet all the audit requirements through effective employment practices and continuing education programs (Whittington&Pany, 1998, p.753).

Organizational independence is a cardinal requirement for producing a satisfactory audit report. Auditors> independence means that auditors must be independent of management if they are to adequately serve the interest of financial statements users (Arry F. 1999, p.31). Independence has also been defined as freedom from bias or conditions that threaten the internal auditors ability to carry out an impartial audit exercise INTOSAI (n.d).

The quality of the internal auditors report would be badly injured if the internal auditor lost independence. David N. (1982, p.28) argued that internal auditor must be independent of both personal and operational activities of an organization otherwise; the integrity of an internal auditor>s conclusions and recommendations would be suspect. It is therefore not surprising that the first category of standards for the professional practice deals with independence (Whittington&Pany, 1998, p.75).

The internal auditing code of ethics has cited independence as one basic requirement of the professional ethics (William C. Raymond, N. p.987). It was asserted in many writings that Independence could only be achieved if the internal auditor reports to an audit committee of the board of directors or to the president of the high executive (Meigs, et al 1989, p.12& Randal, et al 2010 p 16.).In this regard Jack, & James, H (1997,p 880) state that the organizational status of the internal auditor department should be placed high in the hierarchy in order to enable the department to carry out its responsibilities. This strategic placement high in corporate structure helps to assure that internal auditors will have ready and unlimited access to all units of the organization.

The internal auditor is a member within the organization having close and daily contacts with other officers at different ranks. It was stated so frankly that internal auditors are employees of the company in which they work

subject to the restraints inherent in the employer- employee relationship (Meigs, et al. 1989, p.12). Therefore independence could only be achieved if prior concern was made to the possible impact of the following three factors:  
Appointment and dismissal of the chief audit executive.

Reporting level of the internal auditor.

Off- the pay sheet payment made to auditors.

In order to achieve a high degree of independence, the decision to appoint the internal auditor should not be left to the head of the organization which is supposed to be audited. In case of the government organs, the appointment depends on the degree of centralization assumed by executive authority.

There are three levels for positioning the internal auditor within the organizational structure of the governments. The selection of any level for stating the internal auditor is a signal of how the executive authority views the role of the internal audit profession. These levels could be ranked from top to bottom as follows:

**At the cabinet level.**

**At the ministry of economy level.**

**At the level of each ministry.**

At the first level, the prime minister is supposed to appoint the chief audit executive who will in turn appoint all others auditors. At the second level the minister of economic is assumed to appoint the chief audit executive whereas at the third level the appointment is left to the discretion of each minister. The reporting level is closely related to the position of the head of the internal audit office among the government organs. The higher the position of the internal audit office, the higher the reporting level will be, and consequently a greater degree of independence. In this respect David N. (1982, p.31) argues that the higher the organizational level reported to, the greater the range of internal auditors potential effectiveness.

Another factor which might affect the internal audit independence is the payment of incentives and other off-the pay sheet remuneration by the financial controller. Although it seems of little importance, it may have a fatal impact on the internal auditor's role. If payments of incentives are left to the financial controller then the internal auditor's independence is in danger. Looking to the nature of organizational structure of the governments units, the only one way to avoid this situation is a separate budget for the internal audit regardless of where it lies within the organizational hierarchy. In reality, independence could not be achieved unless the internal audit unit stands at

an arm's length from other ministries.

### **3.Previous studies.-**

Thomas Asare. (2010) wrote a paper on the effect of internal auditing in promoting good governance and performance improvement. The paper aims to present a position that internal auditing in the public sector, when well organized and sufficiently authorized, enhances good governance and improves organizational performance. Establishing on Diamond (2002) work, the paper distinguished between centralized and decentralized internal auditing. Centralized auditing is achieved when the internal auditor appointment and accountability rests on the ministry of economy whereas in a decentralized approach each ministry takes on the responsibility of the internal auditor appointment and accountability. Grasping the nature of the government organizational structure, one could faithfully argue that the ministry of economy is not the centre, but the cabinet truly is. The cabinet represents a top unit in the government organizational hierarchy to which all other ministries are accountable. The paper concluded that a well organized internal audit can play a vital role in the governance and accountability process of public sector institutions.

### **4.Development and evolution of the internal Audit profession in the Sudanese public sector**

Before 1966, the internal audit was conducted only at two government utilities which are the Railways Corporation and Gezira Agricultural Scheme. In 1966, the Public Corporation for Manufacturing Production, which monitors the work of about twenty factories, established an internal audit administration. This represented an implicit recognition of the importance of the internal audit in the public sector. But the first organized body for internal audit profession was established in 1997. The body was established as a department in the Ministry of Finance and National Economy under the name: the General Administration for the Internal Audit of Governments Organs (Awad Alhag, 2008). The administration was established by an internal regulation endorsed by the Minister of Finance. The regulation spelled out the duties and power of the internal auditor in addition to the organization structure of the administration. The regulation of 1997 was revoked in 2010 and replaced by the Internal Audit Charter of 2010. The Charter was approved by the National Assembly. The most important aspects of the Charter include the following:

The termination of the financial control committee.

Clear specification of the power vested in the chief audit executive.

Clear specification of the chief audit executive way of appointment.

The exclusion of experience as a necessary condition for the enrollment of internal auditors.

Nothing other than the last aspect that might have a downside effects on the auditors competency and stability. The audit administration is going to be a place where graduates get trained and then leave for better career. Although the charter was approved for giving more power and autonomy to the internal auditors, it is still beyond public expectations if compared with achievements made by the internal auditor of corporate bodies. The internal auditor of corporate bodies reports directly to the Board of Directors sometimes through an audit committee which is a member of the board. The internal audit still remains an administration within the Ministry of Finance headed by a chief audit executive who is accountable to the Minister of Finance. By virtue of its office position as a head of an administration within the Ministry of Finance, the chief audit executive is not in a position that qualifies him to question the Minister of Finance or any other minister of the executive organs. It was asserted that the internal auditor should report to an organizational level above the level audited, otherwise, an internal auditor may be inclined not to criticize peers and superiors (David, N. 1982p.3). Had the charter upgraded the position of the internal audit administration to be an advisory unit to the cabinet it could have achieved the maximum autonomy and independence required. Although the late charter has limited the responsibility of the appointment and accountability of the internal auditors to the minister of economy, the researcher observed that some ministers have appointed their own internal auditors and hence the so appointed auditors become outside the jurisdiction of the minister of economy.

#### **5. Research problem.-**

From the theorization presented above the following questions could be raised:

- 1/ Is there any correlation between the reporting level and the internal auditor organizational independence?
- 2/ Does the setting of a separate budget for the internal audit administration at the cabinet level enhance the internal auditors independence?
- 3/ Is there any correlation between the internal auditors competence and the efficiency of audit work?

#### **-6Research hypotheses.-**

From the research problem presented above the following hypotheses have been formulated:

- 1/ If the internal auditor of the government sector reports directly to the cabinet, then the organizational independence therein will be enhanced.
- 2/ Setting a separate budget for the internal auditor at the cabinet level strengthens the government internal auditors' independence.
- 4/ There is a statistically significant correlation between the internal auditor's competency and the efficiency of the audit work.

#### **-7Sample and data collection.-**

The research universe includes all the federal government internal auditors at the beginning of 2011. The number of the government internal auditors at the beginning of 2011 approximately equals to 600 distributed unevenly among thirty five ministries. Because of the homogeneity of the population attributes the researcher has selected 110 which is equal to 60 internal auditors. The sample was selected from the top ten revenue generating ministries for the year 2010. The selection was made on a judgmental basis using the relative percentage so that each selected ministry will be fairly represented. A close-ended questionnaire was delivered personally to the respondents. The relative percentage distribution of the respondents was reported in table (1). Likert five-scale benchmark was used in the questionnaire.

**Table (1)**  
**Relative percentage distribution of respondents**

Ministry	Total
No of respondents	10
Ministry of Civil Aviation	3
Ministry of the Cabinet	4
Ministry of Justice	15
Ministry of Economy @ Finance	1
Ministry of Tourism	9
Ministry of Health	6
Ministry of Commerce	5
Ministry of Interior Affaires	3
Ministry of Animal Resources	4
Ministry of External Affaires	60



### **3. Analysis and hypothesis testing.-**

The collected data was analyzed using SPSS. The t-test was used to test the difference between means at 1.5 level of significance for the three hypotheses. As for the first hypothesis, the independent variable is the configuration of the audit department and the dependent variable is the auditors' independence. The analysis of the data pertaining to the first hypothesis revealed that the weighted average of those who viewed that if the internal auditor appointment and accountability rests on the cabinet, then his organizational independence will be enhanced is significantly greater than the weighted average of those who viewed otherwise. Tables (1) and (2) contain the mean, standard deviation and the test result for the first hypothesis. From table (2), it could be seen that the level of the test of significance (.000) is below the significance of the null hypothesis (.05). Therefore, it could be fairly argued that if the internal auditor reports and becomes accountable to the cabinet then his organizational independence will be enhanced.

The independent variable for the second hypothesis is the establishment of a separate budget for the government internal audit department, whereas the dependent variable is the government internal auditors' independence. The analysis of the data concerning the second hypothesis proved that the weighted average of those who perceived that setting a separate budget for the internal audit department positively affects its independence is significantly greater than those who perceived otherwise. Tables (3) and (4) contain the mean, standard deviation, and test result for the second hypothesis. From table (4), it could be seen that the level of the test of significance (.000) is absolutely below the significance of the null hypothesis (.05). Therefore, the prediction of the second hypothesis holds true.

The third hypothesis predicts the correlation between the internal auditors' competency and the efficiency of the audit work. The independent variable is the internal auditors' competency and the dependent variable is the efficiency of the audit work. The t-test made for demonstrating whether the internal auditors' competency increases the efficiency with which the audit exercise could be conducted proved that the more competent the internal auditor the more efficient is the audit work. Tables (5) and (6) contain the mean, standard deviation, and test result for the third hypothesis. From table (6), it could be concluded that the level of the test of significance (.000) is no doubtfully below the significance of the null hypothesis (.05). Then it could be fairly argued that learning and experience which the internal auditor might receive before enrollment will have a positive impact on the internal auditor's efficiency.

**Table (1)****One - Sample Statistics**

	N	Mean	Std.Deviator	Std.Error mean
H1	60	3,7727	.61098	.07888

**Table (2)****One - Sample Test**

	Test Value=3					
	t	df	Std.(tailed	mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H1	9,797	59	.000	.7727	06149	.9306

**Table (3)****One - Sample Statistics**

	N	Mean	Std.Deviator	Std.Error mean
H2	60	4,6000	.43742	05647

**Table (4)****One - Sample Test**

	Test Value=3					
	t	df	Std.(tailed	mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H3	28,333	59	.000	1,6000	1,4870	1,7130

**Table (5)****One - Sample Statistics**

	N	Mean	Std.Deviator	Std.Error mean
H3	60	4,4111	.79159	.10219

**Table (6)****One - Sample Test**

	Test Value=3					
	t	df	Std.(tailed	mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H3	13,808	59	.000	1,4111	1,2066	1,61156

## **•Discussion•**

In fact, the organizational structures and controlling systems of governments and corporate bodies are quite similar. Corporate bodies are made of administrations which are very similar in functions and managerial status to ministries. Both administrations and ministries play highly executive roles. The Board of Directors in corporate bodies contrasts the cabinet. The role, which is taken by the financial manager in corporate bodies, becomes the responsibility of the Minister of Finance. The director of the public relations in corporate bodies works in a way similar to that of the Minister of External Affairs; both seek to get and maintain good relations with other parties. The personnel administration in corporate bodies is responsible for hiring labor for other units, a role which is exactly played by the Minister of Work.

In case of corporate bodies, the internal auditor usually reports and is accountable to the head of the Board of Directors through the audit committee and not to the financial manager. By analogy, the internal auditor of the government's organs should report and be accountable to the president of the cabinet and not to the Minister of Finance who takes on the role of the financial manager. In the real world, Malta is a good example of countries where the internal auditor is reporting and accountable directly to the cabinet. This organizational similarity between managers /ministers in one hand, and Board of Directors/ cabinet on the other hand and their relation to the internal auditor was depicted in figure (1). The diagram highlights the possibility of applying corporate principles on government systems, an issue which has been appreciated by many writers. The application of corporate principles on government controlling systems may enhance efficiency and effectiveness. Setting a separate budget for the internal audit administration, will provide more autonomy and protection against the impact of managers' decisions when aggressive auditing reports were made by the internal audit department. Today, competency of the internal auditors is a professional requirement. The competent internal auditor will reduce the cost of the audit work and increase the quality of the audit report.

## **•Findings and recommendations •**

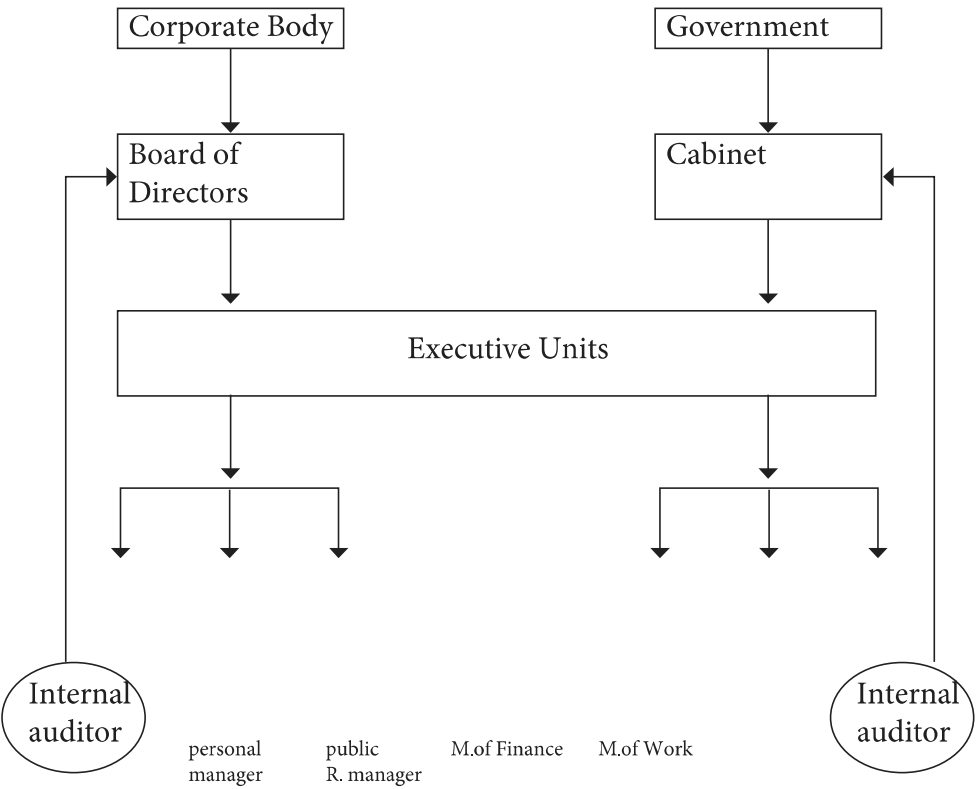
### **1.10 Findings •**

The analysis of the empirical data stated above revealed the following findings:

1 / The configuration of the internal audit at the cabinet level reserves the optimal

- independence required for the government internal auditor.
- 2/ Setting a separate budget for the internal audit department enhances internal auditors independence and autonomy.
  - 3/ Experience before enrolment sustains the internal auditor inner-intellectual solidarity and improves his/her competency to review the organization work.
- On the basis of the above-mentioned findings, the following recommendations have been forwarded:
- 1/ The government internal auditor should be made accountable to the cabinet
  - 2/ It is advisable to set a separate budget for the internal audit department
  - 3/ Candidates applying for internal audit are supposed to have a reasonable time before enrolment

**Fig (1)**  
**The organizational similarities between a corporate body and government.**



Key:  
 M=Ministry

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