

## **Internal Audit Practices and Satisfaction of Administrators: Evidence from State Universities in Sri Lanka.**

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### **Abstract**

The main objective of the study is to identify the impact of internal audit practices on the satisfaction of the administrators in the state universities of Sri Lanka. This study considers two top, middle, and bottom national and international rank Sri Lankan state universities. A developed questionnaire was used to collect data from the administrators of selected state universities. Descriptive analysis reveals that the internal audit practices of selected state universities are below a satisfactory level. Internal audit practices on administrative system review are below than moderate level of satisfaction. Regression analysis confirms that internal audit practices significantly impact the satisfaction of administrators in selected state universities of Sri Lanka. There is a significant association between internal audit practices and the satisfaction of administrators in this study. Based on the study's results, top management of state universities ought to consider improving internal audit practices and reforming the internal audit system in state universities of Sri Lanka. The depth of the literature review highlights that it is the first empirical study that has assessed internal audit practices and the satisfaction of administrators in state universities of Sri Lanka.

*Keywords:* Internal Audit Practices, Satisfaction of Administrators, Sri Lanka, State Universities.

### **1. Introduction**

#### **1.1 Background of the Study**

Government is a vital spending unit, and it is involved in several types of expenditure through a number of ways, authorities, agencies, departments, companies, commissions, and ministries to improve and increase the country's economic activities. Government involves in most of the economic activities of the country. Plenty of activities are taken to measure, find out, improve, and increase the performance of the public sector in the world.

Reporting and disclosure of public finance are essential requirements of good governance. The general public is more aware of public financial management today. Public sector auditors are responsible for independently examining the public sector financial activities. They provide an independent opinion on the public sector financial activities of the country. The public sector auditor should ensure a true and fair view of the public sector financial reporting. It should be prepared following the requirement of statutory and constitutional regulations and the generally accepted accounting practices of the country. The size and complexity of the public sector have been growing in recent years. The importance of public sector accounting and auditing has also been

increasing in recent years. Generally, the public sector external audit is carried out after the end of the financial year or financial activities.

On the other hand, the public sector internal audit is carried out day-to-day of financial and non-financial activities of the public sector. Therefore, the need for effective and efficient internal audit practices is increasing continuously. It plays a significant role in establishing the quality of the internal control system of the public sector.

According to ACCA, Internal Audit Bulletin (1999), an internal audit should cover a systematic review of the developed internal control system and report on the adequacy of the internal control system regarding managerial, financial, operational, budgetary, and reliability.

The Institute of internal auditors (IIA) research foundation (2004) defined an internal audit as an independent assurance and consulting service to improve and increase the organization's performance. It expects to evaluate and improve the effectiveness and efficiency of the organization's risk management, governance, and internal control.

This study examines internal audit practices and their impact on the satisfaction of administrators in state universities of Sri Lanka. It expects to identify the level of current internal audit practices to provide valuable findings for reforming internal audit practices. The findings of the study may help to manage the public resources efficiently, effective operations, perform with legal compliance, true and fair financial reporting, quality of public service to the country, add more value to the public sector organization, get more valuable output and achieve state university's vision and mission.

## **1.2 Statement of the Problem**

The education system of Sri Lanka can be categorized into three categories such as primary, secondary, and higher education. State universities are higher education institutions in Sri Lanka. There are fifteen (15) state universities in Sri Lanka (01.01.2021), and state universities produce many graduates in Sri Lanka. The Sri Lankan government spends a vital amount of money on the activities of state universities in Sri Lanka. Also, Sri Lanka faces an unemployment problem, one of the significant problems in the developing world. The unemployment rate in Sri Lanka has been increasing in recent years; it can be seen that graduated students from state universities are facing problems finding jobs for their education in Sri Lanka. According to the unemployed graduate association, there were 53,000 unemployed graduates in Sri Lanka (Colombo, News 1<sup>st</sup>, 21 Mar 2018 | 9:51 am).

The Committee on Public Enterprises Reports (COPERs), presented on the 11<sup>th</sup> of December 2011, 23<sup>rd</sup> of July 2013, 05<sup>th</sup> of August 2014, 14<sup>th</sup> of November 2014, and 07<sup>th</sup> of November 2019, included the following issues and observations in some state universities of Sri Lanka.

Some state universities did not submit annual reports to the Parliament within the period. They had a few audit and management committee meetings. Some state universities needed proper and adequate monitoring and review of the performance of

the corporate plans' targets. They spent money without legal ownership and did not comply with provisions of the University Act regarding fund management and payment. Some state universities did not recover from losses and non-compliances of staff and suppliers, and no legal actions on lecturers' non-compliance with legal agreements and bonds. Some state universities should have paid employees EPF benefits within the stipulated period. The audit found the underutilization of international funds.

Revaluation of non-current assets did not carry out according to the proper manner. Some constructions were made without proper ownership of the land. The printing activities needed to be more satisfactory, and some printing machines were found idle for some years. They spent a considerable amount on legal matters. The auditor identified improper overtime permission and payment on overtime. Some constructions needed to complete within the stipulated time framework. There were improper procurement activities regarding the contract award. Loan balances should have been adequately collected from the employees who retired, vacated, and transferred. Improper procurement activities were found on vehicles hired for the University. Some state universities did not fill their vacancies and paid honorariums without proper approval.

Some lecturers' promotions needed to comply with University Act. The auditor identified improper payment, approval for the construction, and overpayment for the construction. Some state universities did not take adequate action to recover or to write off the losses. More stationary items were identified as idle. The auditor found improper procurement, and some universities invested a considerable amount without proper approval from the treasury.

Some state universities should have accounted for some assets from the project in relevant years, and such assets were not physically verified. There were notable variances between budget and actual regarding income and expenditure, and there was significant variance between budget and actual expenditure. They should have done better financial management regarding library deposits and research allowance paid to staff contrary to circulars.

Some state universities maintained a massive amount in the current account and paid salaries and allowances without proper approval from the treasury. Some state universities included many items in the internal audit program; however, they have completed and examined only a few. Many audit queries still needed to be answered by some state universities. The auditor found that for over 60 years, officials worked without cabinet approval, and the corporate plan needed to prepare per the circular. The internal audit division issued several reports, but the University did not use such reports for internal control and administrative purposes.

Some state universities did not have the board of survey as per the provisions, and a considerable amount of fixed assets was excluded from the annual survey board. A doctorate awarded to a foreigner was against the procedures and provisions of the

University Act. Academics did not sign on their arrival and departure and needed to maintain proper procedures on leave.

There was no evidence to prove the outstanding amount regarding the advance account. The computer information system was idle, and this project was abandoned halfway and maintained a tremendous amount of money as a fixed deposit. The auditor found the wrong calculation of EPF and ETF, and action plans needed to prepare. The University paid overdraft interest against Financial Regulations. The distance education modernization project's objectives still needed to be achieved, and a lecturer at the University acted as a supplier. Reusable items were disposed of for low amounts, and a considerable amount was spent on purchasing replacements for such disposed items.

According to the above-identified problems and observations, there is a problem regarding effective and efficient operations, reliability of the financial information, and legal compliance of state universities in Sri Lanka. Most of the COPE reports highlighted many internal control weaknesses and improper financial management of Sri Lankan universities. Further, there are several audit queries on state universities by the state audit office in Sri Lanka. The above COPE reports, audit queries, and world rank of state universities highlighted several problems, which are ineffective and inefficient operations, inadequate internal control systems, and improper administrative and financial management of state universities in Sri Lanka. Therefore, a question arises about whether there is an adequate internal audit practice and its efficiency and effectiveness in state universities of Sri Lanka. The research Questions (RQ) of the study are:

**RQ<sub>1</sub>:** Do internal audit practices impact the satisfaction of administrators in state universities of Sri Lanka?

**RQ<sub>2</sub>:** Is there any association between internal audit practices and the satisfaction of administrators in state universities of Sri Lanka?

### **1.3 Objectives of the Study**

#### **Primary objective**

The study's primary objective is to identify the impact of internal audit practices on the satisfaction of administrators in state universities of Sri Lanka.

#### **Secondary objectives**

The secondary objective of this study is to find out the association between internal audit practices and the satisfaction of administrators in state universities of Sri Lanka.

## **2. Literature Review**

### **2.1 General Internal Audit Practices in State Universities of Sri Lanka.**

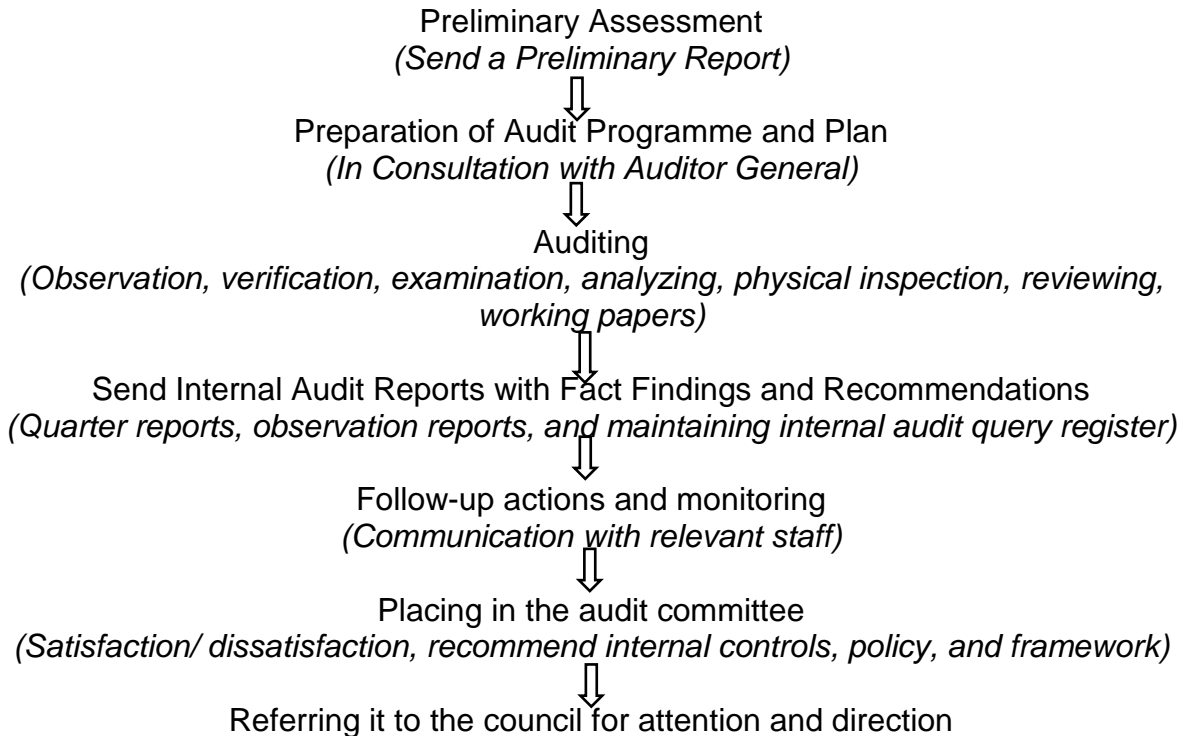
There are fifteen state universities (01.01.2021) in Sri Lanka and universities have an internal audit division in Sri Lanka. Deputy, senior assistant, assistant internal auditor, audit assistant, and work aid are the working positions in the internal audit division of Sri Lankan state universities. According to the current internal audit system of state

universities of Sri Lanka, it can be seen that the internal audit division of state universities is directly performing under the supervision of the Vice-Chancellor. Internal auditors review systems and procedures to ensure that operations are carried out truly and fairly. It assists the accounting officer and the executive-level management of the University in promoting operational efficiencies and monitoring adherence to policies and directives. The internal auditor has the responsibility to prepare an audit plan annually.

The internal audit program and plan are prepared annually considering risk-based auditing and audit techniques. The Vice-chancellor approves it with the recommendation of the Audit Committee. According to the internal audit program and plan for 2018 and 2017 of some state Sri Lankan universities, internal audit focuses on many financial and non-financial activities of the state universities. Generally, the following areas are included under the scope of the internal audit program of state universities in Sri Lanka:

- Budgetary control
- Financial statements, Payrolls, Staff loans, Leave, bonds & agreement
- Research grants, and research allowance, Miscellaneous
- Vehicle utilization
- Fixed assets inventories, and consumable items
- Performance review of construction projects, rehabilitation, and improvement of capital assets
- Contractual payments
- Payments and procurements
- Self-funding course
- Performance audit on academic/administrative system
- Donation and foreign fund
- Staff development
- Ancillary activities, and Legal activities

According to the internal audit division of the state university, the structure of internal audit activities is as follows:



**Figure 2.1:** Structure of Internal Audit Activities in Sri Lankan State Universities

Further internal audit division is expected to carry out the following functions (FR 133 and FR 134) such as:

- Conduct a continuous and periodic review of the campus's functions, procedures, and systems and all departments, divisions, centers, and units of the University.
- Inspection and reporting on financial and operational functions of the University. Ascertain 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.
- Make suggestions to improve the functional efficiency of the University.
- Guiding all administrative and financial divisions on financial regulations and guidelines.
- Pre-audit of all payments concerning gratuity, provident fund, pension and bonds, and agreements of the staff and capital works of the University.
- Maintenance of the audit query register and coordinating the matters relating to audit queries and directives of COPE.
- Convening meetings of the Audit Committee of the University and follow-up work.

## **2.2 Internal Audit Practices and Satisfaction**

Cohen and Sayag (2010) found that internal audit effectiveness vitally impacted support from the management, professional competency, and independence of internal auditors. Further career advancement, promotion, career path, and continuous professional development of the internal auditors will lead to high dedication and commitment.

Nasibah, Radiah, Rohana, and Jusoff (2012) assessed factors influencing the performance of internal audits in the state sector of Malaysia. Data for the study was collected through a developed questionnaire from internal auditors and internal audit staff in this study. The study's findings concluded that the state sector's internal audit function is seriously impacted negatively due to poor management support in Malaysia. Also, researchers found that internal auditors need proper knowledge, training, and experience in the public sector internal audit.

Stephen (2015) revealed an association between the quality of internal audits and the performance of state universities in Nigeria with moderating variable management support. Statistical analysis of the study confirmed a significant positive relationship between the independent and dependent variables of the study. Researchers of the study strongly recommended that state universities achieve their expected top performance through quality service of the internal audit division of the universities.

Eulerich, Kremin, Saunders, Kelli, and Wood (2017) examined internal audit effectiveness and job satisfaction. Results of the study revealed that perception of stigma moderately impacts the turnover rate; also, there was no relationship between perceived stigma and job satisfaction. Researchers recommended that internal audits can significantly impact the profession because internal audits should be improved.

Like, Paul and Chrystelle (2017) found a positive association between internal audit function quality and control of the organization. Statistical analysis confirmed that there was a positive relationship between the quality of the internal audit function and monitoring by the board; however, there was a negative relationship between the quality of the internal audit and the power of the chief executive officer. Researchers recommended that internal audit function quality can use to face the completion in the industry successfully.

Oussii and Boulila (2018) evaluated the relationship between the quality of internal control and the characteristics of the internal audit function. Researchers used regression analysis to test the hypothesis of the study. Analysis of the study confirmed a positive association between the quality of internal audits and the characteristics of the internal audit function.

Georgios (2018) found that internal audit was a vital division behind the success of corporate governance. The practical and efficient function of the internal audit division can lead to the effective management of the organization. Management can use the internal audit as an essential tool in the organization's corporate governance.

Tran (2018) assessed which factors are influencing the effectiveness of the internal audit in Vietnam. Data for the study was collected through a questionnaire and inferential statistics performed in this study. Statistical analysis of the study confirmed that the independence of the internal audit division, internal audit competence, support of management, and internal audit quality were the most significant factors that impacted the effectiveness of the internal audit.

Sulaiman and Mahmoud (2018) investigated the impact of internal audit independence and objectivity on the effectiveness of internal audits in the Malaysian context. Researchers found a positive impact of internal audit independence on the effectiveness of the internal audit.

Yu-Tzu, Hanchung, and Rainbow (2019) examined the relationship between internal audit function quality and deficiencies of internal control. The study's findings recommended that more audit team members can lead to a high performance of the internal audit division. Furthermore, there was a significant relationship between the internal auditor's competence and internal control's effectiveness.

Marc and Rainer (2019) analyzed the internal audit function's involvement in the organization's governance. The study's results highlighted that the best internal audit practices would lead to a practical internal audit function that management should focus on to develop the best and adequate internal audit practices for the better performance of the internal audit division. It will be excellent support for better corporate governance performance in the organization.

### **2.3 Formulation of Hypotheses**

Salihu (2015) found that the management did not correctly implement internal control system components regarding authorization, approval, supervision, segregation of duties, and controls regarding personnel.

Abdulaziz and David (2014) found a relationship between the effectiveness of the internal audit. They selected key factors which cover internal audit competence, the internal audit department's size, the relationship between external and internal auditors, support for the internal auditors by the management, and independence of the internal auditor. Results of the study revealed that support by the management was the key factor in increasing the effectiveness of the internal audit's operations from managers' and internal auditors' points of view.

Chiggai and Harriette (2016) aimed to analyze the effect of the internal audit system on organization performance with a focus on regulatory bodies in Kenya. The findings were presented in frequency tables and figures, while data was presented in prose. The study found that risk management was insignificant in predicting the organization's performance in regulatory bodies, with a p-value = -0.007. The regression coefficient of risk management is negative and insignificant in predicting the organization's performance. This implies that a unit increase in risk management with -0.752 will decrease organization performance. Further, the study found that the control



environment had a significant coefficient with a p-value of 0.242. The regression coefficient of the control environment was positive and significant in predicting organizational performance. This implies that an increase in control activities by a unit leads to an increase in organization performance by 0.262. The study further found that Control activities significantly correlated with organization performance with p-values greater than 0.005 with a p-value of 0.009. The regression coefficient of the control environment was significant in predicting organizational performance.

Obert (2014) revealed that more than  $\frac{3}{4}$  of the respondents disclosed their negative perceptions of internal audits due to the failure of the internal auditor to achieve the expectation gap, the low reputation of the auditor, the commitment of audit staff, knowledge, ability, competence, experience and professional ethics of the auditors. The researcher recommended that the internal audit division adopt knowledge regarding new changes in the business environment, that management should consider taking actions based on the audit opinion, and give much consideration to the organization's corporate governance.

Stephen (2015) assessed the impact of internal audits on the performance of public sector management in Nigeria. From the analysis, it was discovered that there is a significant number of Public Sector Departments in Enugu and Kogi States that have internal audit units and that the use of internal audit can effectively check fraud through the requisite techniques and skills in computer operations and electronic data; heads of internal audit unit should attend top management meetings and should be acquainted with the policy directions of their various organizations. Based on the depth of the literature review, research questions, and objectives, the following hypotheses were developed and tested in this study.

**H<sub>1</sub>: Internal audit practices have a significant impact on the satisfaction of the administrators in selected state universities of Sri Lanka.**

- H<sub>1a</sub>: There is a significant impact of administration system review on the satisfaction of the administrators in selected state universities of Sri Lanka.
- H<sub>1b</sub>: There is a significant impact of control on asset usage on the satisfaction of the administrators in selected state universities of Sri Lanka.
- H<sub>1c</sub>: There is a significant impact of control on payment, research grants & allowances on the satisfaction of the administrators in selected state universities of Sri Lanka.
- H<sub>1d</sub>: There is a significant impact of control on purchase & procurement on the satisfaction of the administrators in selected state universities of Sri Lanka.
- H<sub>1e</sub>: There is a significant impact of legal compliance on the satisfaction of the administrators in selected state universities of Sri Lanka.

Bariyima (2012) revealed that there was no strong relationship between financial performance and internal audit practices of government-owned companies, which weak relationship was due to the inadequacy of attributes related to enterprise, and internal audit practices needed to be adopted and implemented correctly. Further research found that internal audit practices did not positively impact the organization's performance due to poor implementation.

Nwannebuike and Nwadiolor (2016) found that boards did not apply existing punishment procedures to the violations of internal audit procedures. Further researchers suggested that management should initiate upgrading the knowledge and experience of the internal auditors rather than apply poor internal audit procedures. Internal audit procedures should be appropriate to the organization's requirements and applicable to the current business environment.

Kirima (2016) used frequency distribution, percentages, mean, and standard deviation multiple regression analysis in this study. Researchers found that the working environment of the internal auditor on operations of the internal audit division. The performance of the internal audit division depends on the clear audit structure, responsibility of the internal auditor, flexibility of the internal audit functions, commitment of the internal audit staff, competence of the internal audit staff, and professional ethics of the internal auditor. According to the above-depth literature review, research questions, and research objectives, the following hypotheses were developed and tested in this study.

**H<sub>2</sub>: There is a significant relationship between internal audit practices and the satisfaction of the administrators in selected state universities of Sri Lanka.**

H<sub>2a</sub>: There is a significant relationship between administration system reviews and the satisfaction of the administrators in selected state universities of Sri Lanka.

H<sub>2b</sub>: There is a significant relationship between controls on asset usage and the satisfaction of the administrators in selected state universities of Sri Lanka.

H<sub>2c</sub>: There is a significant relationship between controls on payment, research grants & allowances, and satisfaction of the administrators in selected state universities of Sri Lanka.

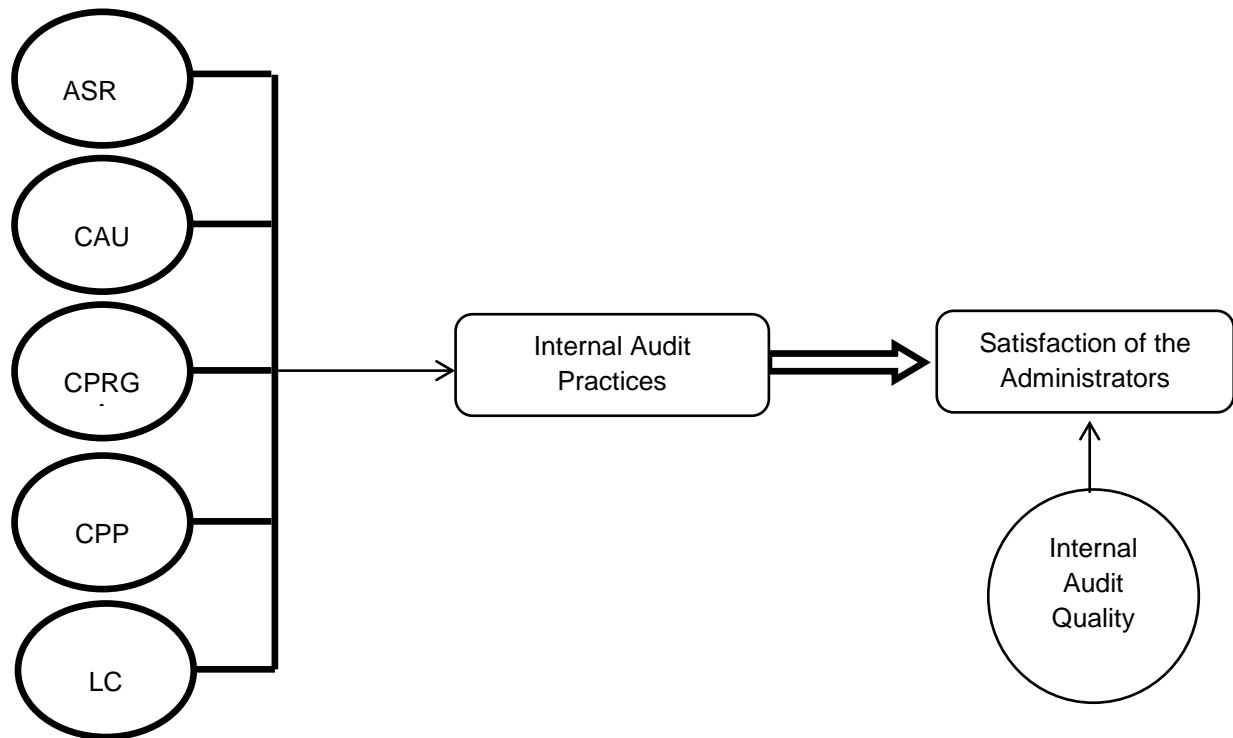
H<sub>2d</sub>: There is a significant relationship between controls on control on purchase & procurement and the satisfaction of the administrators in selected state universities of Sri Lanka.

H<sub>2e</sub>: There is a significant relationship between legal compliance and the satisfaction of the administrators in selected state universities of Sri Lanka.

### 3. Methodology

#### 3.1 Conceptual Framework

The study's conceptual framework clearly shows an association between internal audit practices and the satisfaction of the administrators in state universities of Sri Lanka. The study's conceptual framework was developed based on the audit plans for 2016, 2017, and 2018 of state universities of Sri Lanka, depth of literature review, and discussion with the internal auditor of the state universities of Sri Lanka.



**Figure 3.1:** Conceptual Framework

**Where;**

- ASR : Administration System Review
- CAU : Control on Assets Usage
- CPRGA : Control on Payment, Research Grant & Allowances
- CPP : Control on Purchase & Procurement
- LC : Legal Compliance

#### 3.2 Research Approach

This study is quantitative, most of the relevant data of this study were collected through the questionnaire and analyzed through quantitative analysis. Five-point Likert scales were used to convert questions (perception of the administrators) for the quantitative analysis. Many Likert scale questions were included under every independent variable and dependent variable. Here scale five (5) represents highly satisfied, whereas scale one (1) represents highly dissatisfied. Quantitative analysis was used to analyze the collected data of the study.

### 3.3 Sample

Researchers selected two top, middle, and bottom national and international rank state universities for this study out of 15 state universities in Sri Lanka. This study considers data from state university administrators in Sri Lanka. Data for this study were collected from Vice-Chancellors, Deputy Vice-Chancellors, Registrars, Deans, Heads, and Assistant Registrars of each faculty of selected state universities in Sri Lanka.

### 3.4 Sources of Data

The questionnaire method was used in this study. The questionnaire was initially developed with the help of the existing standards and study questionnaire. A pilot study was conducted in the Faculty of Management Studies and Commerce, University of Jaffna. The final questionnaire was developed with the help of a pilot study to collect the data for this study.

### 3.5 Mode of Analysis

Researchers used the latest version of Statistical Package for the Social Sciences (SPSS) to analyze the study, which is one of the recommended and primarily used statistical packages in social science.

### 3.6 Exposure Assessment

The researcher used the following research model and tested it in this study to find out the impact of internal audit practices on the satisfaction of the administrators in selected state universities of Sri Lanka, a regression model (1) can be estimated as below.

$$Y = \beta_0 + \beta_1ASR + \beta_2CAU + \beta_3CPRGA + \beta_4CPP + \beta_5LC + \epsilon_i$$

**Where;**

<b>Y</b>	=	Satisfaction of the Administrators
<b><math>\beta_0</math></b>	=	Constant
<b><math>\beta_1</math></b>	=	Administration System Review Slope
<b><math>\beta_2</math></b>	=	Control on Assets Usage Slope
<b><math>\beta_3</math></b>	=	Control on Payment, Research Grant & Allowances Slope
<b><math>\beta_4</math></b>	=	Purchase & Procurement Slope
<b><math>\beta_5</math></b>	=	Legal Compliance Slope
<b>ASR</b>	=	Administration System Review
<b>CAU</b>	=	Control on Assets Usage
<b>CPRGA</b>	=	Control on Payment, Research Grant & Allowances
<b>CPP</b>	=	Purchase & Procurement
<b>LC</b>	=	Legal Compliance
And <b><math>\epsilon_i</math></b>	=	Random Error

## 4. Analysis of Data

### 4.1 Respondents of the Study

The 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). The population of the study is 351 administrators, the 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. The respondents' rate is 52.42 %, and the acceptance rate is 49.28 % in this study.

### 4.2 Descriptive Analysis

**Table 4.2.1:** Descriptive Analysis

	ASR	CAU	COPRGA	COPP	LC	S
Mean	2.8584	3.4694	3.4682	3.3165	3.2013	3.1004
Median	2.9167	3.6000	3.5000	3.3750	3.1667	3.1250
Std. Deviation	.62349	.67362	.68457	.61880	.63497	.63889
Variance	.389	.454	.469	.383	.403	.408
Range	2.83	3.80	3.50	3.50	3.50	3.50
Minimum	1.33	1.20	1.50	1.50	1.33	1.25
Maximum	4.17	5.00	5.00	5.00	4.83	4.75

Table 4.2.1 reveals that internal audit practices and staff satisfaction are below satisfactory in the selected state universities of Sri Lanka; however, it is just above a moderate level of satisfaction. Other internal audit practices on academic system review are below moderate level according to academic and non-academic staff's perception in state universities of Sri Lanka.

### 4.3 Regression Analysis

**Table 4.3.1:** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795 <sup>a</sup>	.632	.621	.39350

Predictors: Constant and independent variables of the study.

Table 4.3.1 shows that 62.1 % of the satisfaction of the administrators depends on the internal audit practices of selected state universities in Sri Lanka. Other 37.9 percent of the satisfaction was impacted by other factors, which factors did not consider in this study. Executive-level management of the University can take action regarding internal audit practices. Such actions can significantly impact the satisfaction of the administrators. There is the possibility to improve the internal audit practices through the necessary actions and improvement of discussed internal audit practices in this study.

**Table 4.3.2: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.349	5	8.870	57.283	.000 <sup>a</sup>
	Residual	25.859	167	.155		
	Total	70.208	172			

a. Predictors: Constant and independent variable of the study.

b. Dependent Variable: Satisfaction of the administrators (Internal Audit Quality)

ANOVA test reveals that internal audit practices significantly impact the satisfaction of the administrators in selected state universities of Sri Lanka. According to the result, it can be stated that if the management of the University finds any weakness in the existing internal audit practices, then the management of the University should consider improving the internal audit practices regarding administration system review, control of asset usage, control on payment, research grant & allowances, control on purchase & procurement and legal compliance of the University. As per the significant value of the above table (Sig. 0.000),  $H_1$  is accepted in this study.

**Table 4.3.3: Coefficients**

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.061	.189		.320	.749
	ASR	.325	.062	.317	5.259	.000
	CAU	.060	.060	.063	.987	.325
	COPRGA	.098	.074	.105	1.324	.187
	COPP	.267	.083	.258	3.217	.002
	LC	.213	.080	.212	2.653	.009

a. Dependent Variable: Satisfaction of the administrators (Internal Audit Quality)

Table 4.3.3 shows each variable's impact level on the dependent variable as the independent variable. According to the above results, internal audit practices on administration system review significantly impact the internal audit quality. Moreover, internal audit practices regarding control of purchase & procurement and legal compliance significantly impact the satisfaction of the administrators. These results indicate that if management wants to increase the quality of internal audits, then management should focus on increasing and improving the internal audit practices on administration system review control on purchase & procurement and legal compliance of the University. Internal audit practices regarding control of assets usage and control on payment, research grants & allowances impact the satisfaction of the administrators. However, they do not significantly impact the quality of internal audits in selected state

universities of the study. Therefore,  $H_{1a}$  (.000),  $H_{1d}$  (.002), and  $H_{1e}$  (.009) are accepted, and  $H_{1b}$  (.325) and  $H_{1c}$  (.187) are rejected in this study.

#### 4.4 Correlation Analysis

**Table 4.4.1:** Correlation Analysis

		ASR	CAU	COPRGA	COPP	LC	S
ASR	Pearson Correlation	1	.413**	.407**	.563**	.577**	.653**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	173	173	173	173	173	173
CAU	Pearson Correlation	.413**	1	.647**	.568**	.513**	.517**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	173	173	173	173	173	173
COPRGA	Pearson Correlation	.407**	.647**	1	.710**	.703**	.606**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	173	173	173	173	173	173
COPP	Pearson Correlation	.563**	.568**	.710**	1	.748**	.705**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	173	173	173	173	173	173
LC	Pearson Correlation	.577**	.513**	.703**	.748**	1	.693**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	173	173	173	173	173	173
S (IAQ)	Pearson Correlation	.653**	.517**	.606**	.705**	.693**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	173	173	173	173	173	173

Correlation analysis very clearly reveals that there is a significant and positive association between independent variables and the dependent variable of the study. Suppose the management of the University takes necessary actions to improve internal audit practices regarding administration system review, control of assets usage, payment, research grants & allowances, control of purchase & procurement, and legal

compliance. Then such actions positively correlated with the satisfaction of the administrators in selected state universities of Sri Lanka. It may help to lead the effective and efficient functions of the internal audit division, and it may lead to a better overall performance of the state universities of Sri Lanka. According to table 4.4.1,  $H_{2a}$  (.000),  $H_{2b}$  (.000),  $H_{1c}$  (.000),  $H_{1d}$  (.000), and  $H_{1e}$  (.000) are accepted in this study.

## 5. Conclusion

Effective and efficient internal audit practices are vitally essential to increase the effectiveness and efficiency of operations, the financial information's reliability, and the organization's legal compliance. Statistical analysis of the study confirmed a significant impact of internal audit practices on internal audit quality. Further, correlation analysis revealed a significant positive relationship between internal audit practices and internal audit quality in this study. Based on descriptive analysis, internal audit practices are unsatisfactory based on the perception of the administrators in selected state universities of Sri Lanka. Internal audit practices have to be improved by top management of state universities to increase the performance of the internal audit division and the overall performance of state universities. It expects to lead to an effective and efficient internal audit system, implementation, and use of resources of state universities; it may lead to a better national and international rank of the state universities of Sri Lanka. Also, the internal audit division should be facilitated with adequate human and other physical resources for the effective functions of the internal audit division. Top management ought to find the best internal audit practices from well-ranked universities which could be adopted in state universities of Sri Lanka. Finally, the internal audit practices of state universities should be improved for the better performance of state universities in Sri Lanka.

According to the findings of the study and answers to open-ended questions by the respondents of the study, the following are recommended by researchers:

- Top management of state universities should consider improving internal audit practices regarding tested independent variables of the study, especially since they have to improve internal audit practices regarding administrative system review, which shows below moderate level.
- Regression analysis revealed a significant impact of independent variables on the study's dependent variables. According to this result, if top management of state universities can find and implement adequate and appropriate internal audit practices regarding administration system review, control on assets usage, control on payment, research grants & allowances, control on purchase & procurement, and legal compliance, then they will increase the quality of internal audit.
- According to the respondents' responses to the study and the existing internal audit system in state universities of Sri Lanka, the internal audit division's independence could be better because the internal audit division has to function directly with the Vice-Chancellor of that particular University. The top management of state universities has to increase the independence of internal auditors.



- Currently, the internal audit plan of state universities is prepared by the internal auditor of the University and gets approval from the Vice-Chancellor. University has an audit committee for the monitoring and suggestion part for improving the internal audit plan and its implementation. However, COPE reports highlighted that most state universities did not have audit committee meetings at regular intervals. Due to that, it could be changed to a standard internal audit plan of the state universities. Such an audit plan should be developed by the University Grant Commission each year. Suppose the University wants to add any addition to such a plan. In that case, additions can be added to such a plan according to the need of each University by the internal auditor of that particular University with the proper approval from the top management of that particular University and the University Grant Commission. Further, most of the study's respondents recommended the standard internal audit system and reform of internal audit practices in state universities of Sri Lanka.
- Also, administrators of state universities recommended that adequate human and physical resources be allocated for the internal audit division to carry out their duty effectively.
- Each faculty of state universities have an assistant registrar, and most of the faculty have an assistant bursar. This practice helps for 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. Internal audit divisions also should be decentralized in state universities by creating a cadre of internal audit staff for each faculty and should develop a policy for a maximum service period of such internal audit staff to avoid familiarity threats.
- According to COPE reports, the top position in the internal audit division of the state university is covered by the acting or is vacant in most universities. Top management of state universities should take necessary action to fulfill the top position of the internal audit division for the proper guidance for the internal audit division and effective and efficient operations of the internal audit division. Most of the internal audit division of the state university is headed by the senior assistant internal auditor; it should be considered and revised whether such position and experience are enough for the effective and efficient operations of the internal audit division. There is the position of registrar and bursar that a vital position that should be created for the internal audit division of state universities of Sri Lanka.
- Every state university of Sri Lanka has a centre for quality assurance which is mainly involved with institution and program review of the state universities in Sri Lanka. It is an excellent initiation to assess the institution and programs of the state universities in Sri Lanka. However, most of the activities of this centre are related to the academic activities of state universities of Sri Lanka. It cannot fulfill the functions of the internal audit division. The internal audit division focuses audit on the financial and non-financial operations of the state university, which is needed for the better overall performance of state universities in Sri Lanka. Top management of state universities should consider increasing the internal audit division's quality rather than focusing on developing a new system to assess and

improve the performance of state universities in Sri Lanka. They may consider providing adequate training and practical experience regarding performance and academic audits at the national and international levels.

- Top management of state universities 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 improving the financial and non-financial activities of state universities in Sri Lanka.
- Top management of state universities should find the best 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.
- Software used in the public sector accounting and auditing is not fair to the level in Sri Lanka, which should be improved. There needs to be software in the internal audit practices of state universities in Sri Lanka. Top management of state universities ought to consider the need for software in the internal auditing system of state universities. Several software is used in internal auditing internationally; here, Sri Lankan state universities should identify an appropriate software for the internal audit to improve the internal audit practices of state universities in Sri Lanka.

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