ASSESSMENT ON INTERNAL AUDIT CAPABILITY LEVEL IN A PUBLIC SECTOR ORGANISATION

Hasnah Haron & Ishak Ismail
Faculty of Industrial Management
Universiti Malaysia Pahang

Yuvaraj Ganesan, Fathyah Hashim & Aireen Mak Siew Fern
Graduate School of Business, University Science Malaysia,
Penang, Malaysia

1.0 INTRODUCTION
The Institute of Internal Auditor (IIA) states that the internal auditing plays an independent, objective assurance and consulting role. They are intended to add value by playing its auditing role in assisting the public sector to achieve their objectives efficiently, effectively, economically and ethnically (4Es) (IIA, 2015, p. 5).

The Internal Audit Capability Model (IA-CM)
In 2009, the Institute of Internal Auditors Research Foundation released an evaluation model, namely the Internal Audit Capability Model (IA-CM) to assist the assessment of internal auditor of the public sector performances in a systematic way (The IIA Research Foundation, 2009, pp. 5-7). The IA-CM draws a framework that identifies the basic need for an effective internal auditing in the public sector.

The IACM framework is used to identify the basic needs for an effective internal auditing in the public sector. It helps guide the establishment of IA step by step in progressing from level of internal auditing typical of a less established organisation to a strong, effective, internal audit capability that are generally associated with a more mature and complex organisation. The improvements of KPAs at each level provides strong foundation to progress to the next capability level and known as the building block approach. There are a total of 5 progressive capability level from Initial (Level 1), Infrastructure (Level 2), Integrated (Level 3), Managed (Level 4), and highest capability level Optimizing (Level 5), referencing to Figure 1.

There are six important elements to assess the IA activities and each element has its Key Process Areas (KPAs) and all KPAs, up to and including the KPAs at a given level must be mastered and institutionalized to achieve that level. The elements and their KPAs are as shown in Figure 2.

Exhibit 1.1
IA-CM Levels

Figure 1 : IACM Model Capability Levels
Source: The IIA Research Foundation, 2009

1 The authors would like to thank National Audit Department, Institute Integrity Malaysia, National Audit Penang, Ministry of Finance, Prime Minister Department and the Head of the Internal Audit of the Public Sector who has participated in this study.
2.0 RESEARCH METHODOLOGY
An IACM checklist was developed and translated based on the IACM KPAs to use as the main analysis tool in order to conduct the in-depth understanding of the capability level at the Public Sector B. It will assess the capability level for each of the six dimensions outlined in the IACM model and gives an overall capability level of the Public Sector based on building-block rule. The outcome of the evaluation will summarize the overall capability level which is reflected from each dimension.

3.0 FINDINGS
The Public Sector’s Internal Audit Department IACM evaluation concluded at an overall capability level 2 (Infrastructure). At Level 2, the IA department will have major opportunities to improve the effectiveness of the IA activity, and as such it only partially complies to the Standards (The IIA Research Foundation, 2009, p. 43). From the evaluation, the IA department shows significant capabilities for two dimensions. First is the Services and Role of IA dimension, achieving a capability level 5 and second dimension is the Organizational Relationships and Culture with a capability level 4. It needs improvements in Dimension 2, People Management, Dimension 3, Professional Practices, Dimension 6, Governance Structures and also Dimension 4, Performance and Accountability. Figure 3 shows the detailed analysis of each dimension.

4.0 RECOMMENDATIONS AND CONCLUSIONS
The outcome of one sample of public sector’s evaluation using the IACM checklist shows that there is still much to explore to bring the capability level up to 5 (Optimizing). As the IACM uses the building-block methodology, the IA unit can easily analyze and choose the weak KPAs to focus in order to proceed to the next capability level. For example, the sampled Public Sector IA unit’s is able to know instantly that it has established a matured level for services and role of IA element as well as the organizational relationships and culture element. Hence, more focus should be placed on other elements which are the people management, professional practices, performance management and accountability, and the governance structure. Among which, the element of people management score the lowest KPAs achievement percentage. In order to progress for this element, the sampled Public Sector IA unit is required to look into the next KPA which is developing a performance matrix system to track and measure the IA’s activity effectiveness. Accomplishment of this KPA will help progress this element to level 3. The progress and development using the IACM guide helps the IA function creates a competitive platform for the Internal Auditors to attain more knowledge, be it internally (IA professional practices) or externally (company and industry issues and trends). It will create awareness to all IA functions in the public sector that the profession of the Internal Auditors is highly essential to assist the public sector towards good governance.

This study is a study on one sample study thus the findings is not generalisable to all public sector. It does demonstrate however the use of IACM as a roadmap towards the improvements of the effectiveness of public sector’s internal audit function.