

**ASSESSMENT ON INTERNAL AUDIT CAPABILITY LEVEL IN A PUBLIC  
SECTOR ORGANISATION  
CASE STUDY ON A LOCAL GOVERNMENT<sup>1</sup>**

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**ABSTRACT**

*Internal auditing has become an important function in assisting the public sector organisation in achieving its objectives efficiently. This study serves to explore the level of capability of Internal Audit (IA) in a government agency in the public sector of Malaysia. Internal Audit Capability Model (IACM) from the Institute of Internal Audit Research Foundation was used as a basis to assess the capability level of IA. A series of interviews were conducted with the Ministry of Finance, Prime Minister's Department, Penang State Audit Department and IA department from a local government to better understand the public sector's structure, performance measurement systems and applicability of IACM in the public sector. IACM evaluation shows a strong establishment in elements of Services and Role of IA and Organisational Relationships and Culture, scoring a capability level of 4 or 5. There is a need to review the remaining elements (People Management, Professional Practices, Performance Management and Accountability, and Governance Structure which were evaluated at capability level 2 or 3 to enhance the effectiveness of the IA function in the related government agency. The IACM model could be a centralize assessment to serve as a common communication vehicle within the country as well as globally. Implications and suggestions for further studies are also provided in this study.*

**Keywords:** Internal Audit, Malaysian Public Sector, Internal Audit Capability Maturity Model

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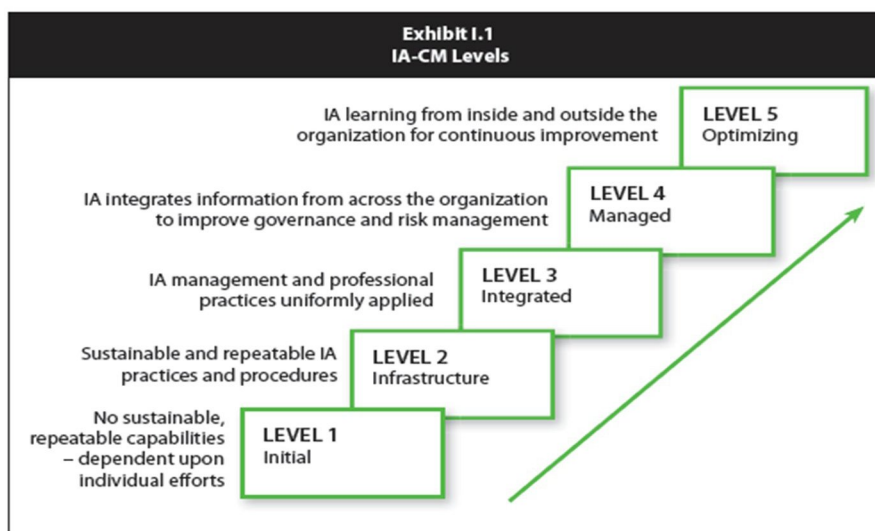
## INTRODUCTION

The Internal Audit function has been recognized as an important entity to add value to an organization. The Malaysian government recognizes this and mandates the establishment of the Internal Audit unit in the Federal government agencies since year 1979 via Treasury Circular No.2. (Circular Archives, 2015)

The public sector plays an enormous essential role in managing a country's wealth and assets and there is a need for an independent party to continuously monitor and assess their performances. The Institute of Internal Auditors (IIA) highlighted the importance of the Internal Auditors role not only in the private sector, but in the public sector as well. The IIA described that the Internal Auditor's role is to enhance the economy, efficiency, and effectiveness of the government's performances at all levels (The IIA Research Foundation, 2009).

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 model consists of five levels as shown in Exhibit I.1 below, excerpt from The IIA Research Foundation.

Figure 1 : IACM Model Capability Levels



Source: (The IIA Research Foundation, 2009)

Many studies were conducted to understand the effectiveness of the Internal Auditors in the Malaysian public sector, which revealed the challenges faced by the audit function in