

**AN INVESTIGATION OF THE RELEVANCE OF INTERNAL AUDIT
FUNCTION IN THE PUBLIC SECTOR IN THE LIGHT OF
MISMANAGEMENT OF PUBLIC FINANCES**

BY

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the requirements for the award of The Degree of Master of Science in
Accounting and Finance**

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DECLARATION

I declare that this thesis is my own work and has not been formerly published or submitted somewhere else for honor of a degree. I further declare that this contains no material written or published by other people but I have consulted and made reference to the works of others and author duly recognized.

Sign..... Date.....

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APPROVAL

This Dissertation by **Silvester Mwila** is approved as a fulfilment of the requirements for the award of Master of Science in Accounting and Finance.

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ABSTRACT

The presence of Internal Audit in the Public sector is fundamental for the elimination or reduction of financial and non-financial irregularities though there has been recurring cases of such irregularities as highlighted in the reports of the Auditor General. Therefore, as the result of these cases the general public, donors and other stakeholders have questioned the relevance of Internal Audit function if cases of financial irregularities could arise in the face of internal auditors

This study was aimed at evaluating the relevance of internal audit function in the public sector of Zambia. The specific objectives of the study were to evaluate senior management support to internal audit function in government ministries, to evaluate senior management's responsiveness to internal audit findings and recommendation, and to determine the extent to which internal audit effectiveness is evaluated in the public sector. The institutions targeted were the Ministries and public institutions within Lusaka Province. The study embraced a descriptive survey investigation design with the target population of 140. The sample size was 109 respondents comprising internal auditors and finance staff in government departments. The respondents were picked using a purposive sampling technique. The data was collected using questionnaires and analysed using SPSS. The results revealed that the variables used, that is, senior management support, internal audit independence, internal audit quality and audit committee are serious determinant factors of relevance of internal audit which management must pay particular attention to. This is in agreement with the previous studies. The study recommended that management should put extra emphasis on providing responses to internal audit results and implement recommendations and, providing the logistical support to internal audit for easy of operations. It is further recommended that the sound relationship between the audit committee, senior management and the internal auditors should be encouraged. The implications of the findings therefore are that the effectiveness and relevance of internal audit function rests with management. The future studies should focus on establishing the factors affecting management's responsiveness to internal audit observations and also factors affecting management support to internal audit.

Key words: *Management support, independence, responsiveness, audit, governance, relevance*

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LIST OF ACRONYMS

ACCA	Association of Certified Chartered Accountants
CEO	Chief Executive Officer
CIIA	Chartered Institute of Internal Auditors
CIMA	Chartered Institute of Management Accountants
DFID	Department for International Development
GPE	Global Partnership for Education
GRZ	Government of the Republic of Zambia
IA	Internal Auditor
IAD	Internal Audit Department
IAF	Internal Audit Function
ICAEW	The Institute of Chartered Accountants England and Wales
IIA	Institute of Internal Auditors
IIAPA	Institute of Internal Audit Practice Advisory
INTOSAI	International Organisation of Supreme Audit Institution
IPPF	International Professional Practices Framework (IPPF)
MOF	Ministry of Finance
MPSA's	Ministries, Provinces and Spending Agencies
PFMA	Public Finance Management Act
SPSS	Statistical Package for Social Scientists
ST	Secretary to the Treasury
ZICA	Zambia Institute of Chartered Accountants

DEFINITION OF WORDS.

Internal Auditing:

An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (Internal Audit Manual, Ministry of Finance, 2015).

Management override

The ability of management and/ or those charged with governance to manipulate internal controls, accounting records and prepare fraudulent financial statements by overriding these controls, even where the controls might otherwise appear to be operating effectively (The Institute of Chartered Accountants England and Wales, 2018)

CHAPTER ONE

INTRODUCTION

1.0 Background of the study

Over the past years, the scope of auditing has widened due to the dramatic changes and its impact to organizations. It has always been carried out in diverse environment within organization depending on the structure, size and purpose (Faudziah, Haron & Jantan 2005). Internal Auditing has become a useful control tool in corporate organizations, particularly among publicly listed companies and public sector organizations as it has become essential for them to establish an internal audit function (Chisoko, 2018). It is the tool that Organizations have implored for the purposes of providing checks and balances in ensuring that the system of internal controls put in place by Management is effective and efficient to enable the realization of goals and objectives. Organization have come to the realization of the fact that Internal Auditing is a vital tool for the achievement of organizational objectives. (Cohen and Sayag, 2006) further suggests in their study that the goal of internal auditing is to add value to the organization through evaluation of the control, risk management and governance.

The Institute of Internal Auditors (IIA) defines Internal Auditing as;

“an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (Internal Audit Manual, Ministry of Finance, 2015).

The activities that are embedded in the definition are carried out by a person called an Auditor, who by professional ethics and conduct, is required to be independent. The independence in context refers to someone being free from all material conflicts such that the objectivity of the audit work is not threatened (Christopher, Sarens & Leung, 2008).

Internal audit for public sector is not well researched in Zambia. This study may be one of the initial efforts in evaluating the significance of internal audit for the public

sector in Zambia, with a focus to investigate the concern whether internal audit is relevant and contributing in case of public sector.

1.1 Background of the Study

In Zambia, by 2010, as a control mechanism, the government had managed to put in place Internal Audit Function in all its Ministries and other spending agencies to promote and support a high standard of financial management system and administration in the public sector or ministries, (Kathleen Aton- Osias and Mira Dobovisek, 2016). Internal audit is vital for public sector organisations to achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders. By virtue of having Internal Audit function in the government ministries entails the provision of checks and balances thus ensuring that the system of internal controls is working effectively and efficiently to abate financial irregularities, maladministration, and misappropriation of public funds. Financial irregularities is referred to as poor management of finances and non-compliance to financial guidelines when disbursing and expending funds, maladministration as wrong doing and corrupt behavior on the part of the authority, and misapplications as dishonest use of funds for one's personal use (Rangongo. P. , Mohlakwana. M, and Beckmann J, 2016).

The internal audit function is expected to monitor and report on the effectiveness of internal controls. Where controls are weak the Internal Auditors should flag that off thereby preventing the financial and non-financial irregularities to arise where management responds to the report of the internal auditors on the operation of the controls. However, despite having Internal Audit Function in the Public Sector, financial and non-financial irregularities in terms of audit queries have kept on arising. The Auditor General's Report of 2012 indicated that the issues arose as a result of the failure to adhere to laws, regulations, guidelines, stated procedures and other internal control systems in the implementation and execution of approved planned budgetary activities. With the existence of internal auditing, considering what it involves, the occurrence of irregularities should be detected and prevented. Auditing involves control techniques such as separation of duties, independent verification and questioning to detect and prevent irregularities. Theoretically there is no restriction on what internal auditors can evaluate and report about within an organization. Given the

foregoing the study therefore seeks to document the effectiveness and relevance of internal auditing in the public sector in the light of perpetual occurrence of both financial and non- financial irregularities.

1.1.1 The Government's efforts to enhance internal control / risk management system.

The Republic of Zambia with support from other stakeholders have over the years exhibited the resolve to enhance internal control system and address mismanagement of public resources, mal-administration of public affairs and fraud. This is evident by the formulation of Risk Management Directorate under Ministry of Finance, creation of Financial Intelligence Centre, Upgrading the position of Controller of Internal Audit to Controlling officer level and formulation of the Risk-Based Internal Audit Manual among other reforms. Following the enactment of the Financial Intelligence Centre Act No, 46 of 2010 and revelations contained in the Centre's reports of 2017 and 2018, regulatory and economic pressures are forcing public sector organizations to do a more thorough job when conducting enterprise wide risk assessments, pursue strategic opportunities in a risk effective manner, increase the effectiveness of risk mitigation efforts, and focus on a more holistic approach to risk management. For instance, for the first time ever in the history of Zambia, in the year 2019, Ministry of Finance established Risk Management Directorate to aid the evaluation and management of risks in the public sector and, the elevation of the position of the Controller of Internal Audit is one of such risk mitigation efforts. Internal audit is necessary for any organization for fraud detection, risk management and organizational performance appreciation (Chowdhury J. H et al, 2017). In December, 2015 Ministry of Finance with the support of Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH engaged Price waterhouse Coopers (PwC) Limited to lead the formulation of the first ever edition of the Risk-Based Audit Manual to be used by Internal Auditors across the Public Sector. The manual was meant to serve as an essential tool for entrenching risk-based-audit approach in the Public Sector (Risk Based Audit Manual, 2015).

Organizations are under pressure to identify all the business risks they face; social, ethical and environmental as well as financial and operational, and to explain how

they manage them to an acceptable level. Internal audit could play an important role in risk management (IIA, 2009).

1.1.2 Effectiveness of Internal Audit in the Public Sector

The effectiveness of internal audit function speaks to the competencies and skills that internal auditors possess. Internal Audit Division under the Ministry of Finance of the Republic of Zambia affiliates itself to the Institute of Internal Auditors (IIA) Global which promotes the skills and competencies of internal auditors and upholds its ethics. The principles which underlie the code of ethics include the requirement that Internal Auditors apply and uphold Integrity, Objectivity, Confidentiality and Competency (IIA, 2019). IIA defines the ethics as follows:

1.1.3 Integrity.

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

1.1.4 Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

1.1.5 Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

1.1.6 Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

According to the IIA code of ethics the competency of Internal Auditors entails:

- I. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- II. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- III. Shall continually improve their proficiency and the effectiveness and quality of their services.

1.1.7 Overview of Internal Audit Function.

This section provides an overview of Internal audit in the public sector, its affiliation and values

1.1.7.1 Institute of Internal Auditors

Internal Auditing, just like other profession, is a profession that falls under a Regulatory Organization called the Institute of Internal Auditors (IIA). IIA is a trustworthy, global, guidance-setting body that provides internal audit professionals worldwide with authoritative guidance organized in the International Professional Practices Framework (IPPF) as mandatory guidance and recommended guidance. According to the Standards and Guidance Site of the IPPF, The International Professional Practices Framework is the conceptual framework that organizes authoritative guidance promulgated by The IIA.

The role and responsibilities of IIA have revolved over time though, ultimately its objective has remained the same. The main responsibility of IIA is to set International Standards for the profession and provide guidance. The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) recommend defining the internal audit activity's purpose, authority and responsibility in a charter that is approved by the board (IIA, 2019). In the case of the public sector in the Republic of Zambia, the agenda of Internal Audit Charter is championed by the Controller of

Internal Audit who is the head of Internal Audit Division of the civil service. Internal Audit charter is then approved by the Secretary to the Treasury who is the chief controlling officer of Government to whom the Controller of Internal Audit reports. The Secretary to the Treasury (ST) is appointed under the provisions of the Constitution of Zambia. Some of the functions of the ST include;

- (a) provide advice and guidance on matters relating to budgeting, accounting and internal auditing policy and general financial management;
- (b) monitor and inspect the operations of the decentralized accounting and internal audit units in public bodies to ensure value for money;
- (c) provide a regulatory framework for sound financial management and accounting in public bodies;
- (d) implement the recommendations of the Parliamentary Committee on Public Accounts;
- (e) appoint Audit Committee members and oversee their operations;
- (f) design and implement effective controls, risk management and governance systems in public bodies;
- (g) ensure that risk management, internal control and governance systems are regularly reviewed in public bodies so as to enhance transparency and accountability;

1.1.7.2 The Controller of Internal Audit

As alluded to earlier regarding the audit charter, there is in existence the office of the controller of internal audit in Government of the Republic of Zambia. The Controller of Internal Audit is the head of internal audit services in Government appointed by the president and is at the level of Permanent Secretary. Permanent Secretaries can be referred to as the Chief Executive Officers of the Government Ministries. They are also referred to as Controlling Officers. Up until the year 2018, the position of the controller of internal audit was never a presidential appointment and was at a level of a director and reported to the Permanent Secretary responsible for Financial Management and Administration at the Ministry of Finance. The incumbent happens to be the first controller of internal audit to operate at the level of the Permanent Secretary under presidential appointment. The president decided to elevate the position of the Controller of Internal Audit to the level of permanent secretary to

streamline Government operations, strengthen control systems and curb abuse of government resources (Times of Zambia, published on January 25, 2018). The Public Finance Management Act defines the functions of the controller of internal audit regarding government resources to include;

- a) provide independent and objective assurance to the Secretary to the Treasury on—
 - (i) the proper financial management and expenditure of public monies appropriated to a public body;
 - (ii) public monies raised from sources within or outside Zambia by a public body; and
 - (iii) any system of internal controls, risk management and governance processes for proper management of public resources.
- b) to provide assurance that monies appropriated by Parliament or raised by the Government are disbursed and applied for the purpose for which they were appropriated or raised and are expended efficiently, effectively and economically.
- c) give general or specific guidelines to internal auditors in relation to the performance of internal audit services, in accordance with the Act, or regulatory framework relating to the practice of internal auditing.

Regardless of the fact that the controller of internal audit carries out the above mandated functions cases of financial and non-financial irregularities have kept on recurring as reported in the Auditor General's Reports of 2008 to 2019. The mandated functions of the Controller of Internal Audit are reinforced with the creation of Audit Committees in the line Ministries.

1.1.7.3 Audit Committee

An audit committee is a committee that provides an oversight of the Government's financial practices and standards of conduct. It is an integral party of governance that promotes the enhancement of internal control system.

In its quest to improve good governance and quality service delivery, the Government of the Republic of Zambia embarked on Public Service Reforms. Under the Reforms, Public Officials are expected to demonstrate a high level of accountability and transparency over the use of public resources. One means of demonstrating this and

indeed ensuring a higher quality of services, is through improved governance and performance of Ministries, a part of which is through the establishment of Audit Committees (Audit Committee Handbook, 2006).

The audit committees in the public sector are appointed by the Secretary to the Treasury. The Audit Committee assists the Secretary to the Treasury and Controlling Officer by providing advice and guidance on the adequacy of the Public Body's initiatives for:

- Internal control framework.
- Oversight of internal and external audit.
- Financial statements and public accountability reporting.
- Risk management.
- Governance structure.
- Values and ethics.
- Management action plan.

The mission of the Audit Committee is to provide structured, systematic oversight of the Public Body's governance, risk management, and internal control practices.

The audit committee is responsible for evaluating the effectiveness of internal audit function. The evaluation of effectiveness of internal audit also includes an assessment of internal audit's objectivity and independence. (KPMG, 2020). The effective implementation of the audit committee in the public sector would also mean enhancing the system of internal control to eliminate or minimise financial and non-financial irregularities in the accountability of public resources.

1.2 Statement of the problem

A crucial part of an entity's corporate governance is its Internal Audit Function (Paul and Colin,2006). The role of internal audit is to promote the Government accomplish good public economic and functioning management through financial responsibility and transparency and effective public spending. Samuel Gathuki Mwangi (2017) argued that the internal audit has not been able to achieve this objective as demonstrated by the recurring reports of misappropriation and misapplication of public funds and other financial and non-financial malpractices in the public sector where public funds are lost in the scandals.

With reference to the Zambian Government, the public service has internal audit function or units in all its Ministries. The presence of Internal Audit in these Ministries entails having in place a good governance and public financial management control system and an environment that promotes transparency and accountability. However, over the years the Office of the Auditor General reports cases of fraud and mismanagement of devolved public funds and corruption in Government Ministries despite having Internal Audit Function. The Reports of Auditor General on the Accounts of the Republic from 2010 to the Financial Year ended 31st December 2018 show the recurrence of financial irregularities. These financial irregularities have continuously recurred over the years though the trend has been uneven over the years. Uneven trend due to the combination of rise and falls of irregularities over the years. Table 1.1 below shows the recurring audit queries for the period of eight (8) years from the year 2010 to 2019.

Table 1.1 Overview of recurring audit queries from 2010 - 2018

Details	2018 K	2017 K	2016 K	2015 K	2014 K	2013 K	2011 K	2010 K
Unaccounted for Revenue	143,179	873,649	3,700,509	558,449	3,251,333	1,220,260	2,253,941	1,761,709.00
Unaccounted for Funds	26,000	31,200,930	386,834	193,910	506,354	4,767,666	5,054,210	3,823,553.00
Misapplication of Funds	62,432,136	61,657,450	162,095,699	28,153,997	73,637,561	65,158,686	23,685,562	220,628,818.00
Unretired Accountable Imprest	667,703	4,073,434	17,559,399	12,659,892	12,585,194	8,170,462	33,136,711	77,161,637.00
Unvouched Expenditure	1,033,754	14,137,189	170,554,478	349,306,160	389,905,333	67,139,852	77,014,932	74,793,882.00
Unaccounted for Stores	133,815,072	6,370,531	14,428,573	13,460,323	26,400,272	72,371,091	22,079,935	43,921,119.00
Irregular Payments	12,767,837	21,791,360	1,591,348	115,350,860	26,358,488	14,467,146	4,233,314	10,289,923.00
Non Recovery of Loans and Advances	201,572	901,507	1,689,982	2,352,451	2,877,442	2,744,814	3,479,476	10,098,900.00
Failure to Follow Procurement Procedures	879,000	1,051,686	509,535	35,701,492	2,720,434	8,406,729	4,674,317	2,540,559.00
Undelivered Materials	9,195,241	1,486,568	116,759,240	251,523,804	522,904	19,959,462	2,104,187	646,211.00
Non -Submission of Expenditure Returns	301,830	29,409,484	40,705,270	6,308,762	1,232,749	1,792,192	27,083,333	3,090,848.00
Wasteful Expenditure	222,534	7,865,395	3,586,879	39,854,959	8,354,290	354,939	2,609,341	7,362,830.00
Overpayments	15,824,166	7,437,149	1,061,247	26,559,013	1,578,571	360,684	6,000	131,562.00
Misappropriation of Funds	61,354	5,036,051	3,618,127	-	4,767	44,500	1,060,362	1,096,258.00
Totals	237,571,378	193,292,383	538,247,120	881,984,072	549,935,692	266,958,483	208,475,621	457,347,809

The revelations in the Auditor General's report of 2018 resulted in the donors and other cooperating partners questioning the relevance of internal audit in the public sector if such cases could arise in the presence of Internal Auditors. Cases of mismanagement of public resources in the Ministries of General Education and Community Development resulted in the donors like GPE and DFID withdrawing their financial support to the education sector and social cash transfer programme citing mismanagement of funds. On 18th September 2018 Britain and Finland froze funding to Zambia Social Cash Transfer Scheme citing misuse of \$ 4 million channeled into the scheme (UK Reuters). UK froze aid funding to Zambia after its

government admitted that \$4.3m (£ 3.3m) meant for poor families had gone missing, BBC reported on its online tabloid <https://www.bbc.com/news/world-africa-45560404> in 2018, on 18th March. Ireland, Finland and Sweden also suspended aid. An inquiry ordered by Zambia's president had uncovered the 'misappropriation' of \$4.3m. The money had gone missing from the Social Cash Transfer Programme, which allocated money that was paid directly to the poorest, BBC reported.

Reports of such scandals created a perception that questioned the relevance of internal audit in the public sector. The arguments and different perceptions about the relevance of Internal Audit in the public service has arisen due to the Financial Irregularities that are revealed in the Auditor General's Report over the years.

1.3 Aim of the study

Clear the stakeholder perception on the relevance of Internal Audit Function in the Public Sector and to enhance internal control system in the management of financial and non-financial resources

1.4 Research Objectives

The objectives of the study were as stated below

1.4.1 Primary Objective

To establish the relevance of Internal Audit Function and its impact on the management and accountability of resources in the public sector

1.4.2 Secondary Objectives

- a) To evaluate senior management support to internal audit function in government ministries
- b) To evaluate senior management's responsiveness to internal audit findings and recommendation
- c) To determine the extent to which internal audit effectiveness is evaluated in the public sector

1.5 Research Questions

1.5.1 Primary question

What is the scope and quality of internal auditing in the public sector?

1.5.2 Secondary research question

- a) What is the level of senior management support to internal audit function?
- b) What is the extent of senior management's responsiveness to act upon and implement internal audit recommendations?
- c) How often is internal audit effectiveness evaluated?

1.6 Significance of the study

Considering the recurring of reports of financial mismanagement in the public sector over the years despite having in place internal audit function, It is important to understand the reason for such recurring of audit queries in the government ministries.

The reason for the recurring financial and non-financial irregularity reports in the face of internal audit function are to be analyzed in order to understand the reasons of such irregularities and to proffer recommendations. It then becomes important to study the relevance of internal auditing in the public sector. The study aims to focus on understanding the relevance of internal audit function with reference to the public's perception of Internal Audit Function.

The findings from this study could be used by policy makers to make internal audit function relevant and effective. The findings could also be a hint regarding the evaluation of the effectiveness of internal audit function.

There has been extensive study on the importance of internal audit function, particularly the objectivity and independence of internal audit, as part of an effective corporate governance structure (Paul Coran, Colin Ferguson, Robyn Moroney,2008). However, there has been limited research on the success factors, relevance and effectiveness of the function in the public sector. The information from this study will be important in helping policymakers to make informed decisions on internal audit

function as a control mechanism in itself regarding the management and utilization of resources in the public sector.

1.7 Scope of the study

The study was restricted to the investigation of the relevance of internal audit function with a focus on the impact of Internal Audit Function on the management of funds in the public sector. The research aimed at investigating the factors affecting internal audit effectiveness in Zambia's government ministries. The research was restricted to 22 government line ministries with headquarters in Lusaka Province and reviewed the reported recurring irregularities for a period from 2010 to 2018. The study concentrated on the identified determinants of the relevance of internal audit function which are management support, independence of internal audit function, audit committees and internal audit quality. Internal audit quality was looked at in terms of qualifications, skills and competencies of internal auditors.

1.8 Study synthesis

Study / research is organized in six/seven chapters

This study is structured in five chapters. Chapter one introduces the topic of the dissertation and outlines the statement of the problem, aims and objectives of the study, the research questions as well as the scope and the significance of the study.

Chapter two is about literature review of the theory of internal auditing. It discusses the works of others, highlighting the gaps in their study. The chapter further discusses the conceptual and theoretical framework linking it to the objectives of the study and the research questions.

Methodology is in chapter three. Methodology introduces the research designs, population, sampling procedures, data collection, and ethical considerations.

Chapter four provides data analysis, interpretations and detailed discussions made by the researcher which are later concluded in chapter five. Chapter five has the conclusion and the recommendations.

1.9 Limitations of the Study

The study was done in one out of the ten province which represents only 10% of the provinces in Zambia therefore the generalization of the findings may not be representative enough. Secondly, management's perception of internal audit function is not the same. The measurement of the factors affecting audit relevance is very subjective. There could be more factors affecting internal audit relevance, however this study was limited to only four variables namely; senior management support, internal audit independence, internal audit quality (qualifications, skills and competencies) and audit committee effectiveness. The respondents' views over these variables may be different in other locations, thus generalization of the findings may be misleading.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This Chapter focuses on the review of literature. The purpose is to understand the context of the relevance of internal audit function in the public sector. Within the literature, there are different approaches to explore the relevance of the Internal Audit Function in the public sector. In this chapter the works of other researchers have been considered and reviewed.

Many studies have explored the relevance of internal audit function. Other studies focused on the scope of the function, competence of internal audit, independence and objectivity of internal audit, and management support for internal audit. Drogalas, G., Karagiorgos T. & Arampatzis K. (2015) argued that quality of internal audit, competence of internal audit team, independence of internal audit and management support are associated with the effectiveness of internal audit function. The chapter reviews and analyses the literature on the studies done by others to establish their contributions and to also highlight the gaps in these literature which this study seeks to fill.

2.1.1 Internal Audit Delivery and Management Support

The relevance of internal audit function can be determined considering the adequacy and effectiveness of the internal control system. Internal control is a management tool used to provide reasonable assurance that management objectives are being achieved (Endaya and Hanefah, 2016). Therefore, the relevance and effectiveness of the internal control system requires that internal audit delivers on its mandate and meet the expectations of oversight bodies, either public oversight bodies or civil societies. The key to the success of internal audit delivering on its mandate is the support it gets from Senior Management and the Audit Committee. Kimball R (2016) argues that Successful organizations are driven by Top Management that pays attention to facts and issues that drive improvements to the operation of the organization. Internal audit is one of such issues as it is a function providing strategic audit activities aligned with the overall organizational goals to help improving the organization's operations by

evaluating and improving the effectiveness of risk management, control and governance processes (. Zeitouny, H ,2012). Alzeban and Gwilliam (2014) argued that management support for internal audit drives perceived effectiveness of the internal audit function from both management's and the internal auditors' perspective. Alzeban and Gwilliam's argument was on the setup of Saudi Public sector. Alazzabi, W.Y.E., Mustafa, H. and Karage, A.I. (2020), stated that there is a positive relationship between top management support to internal audit function and the relevance of internal audit. Bello et al., (2016) suggested that top management support significantly and positively influence organization performance. Other researchers have argued that top management support should be supplemented with other factors for internal audit to be effective. Baharud-din, Shokiyah and Ibrahim (2014) found that there were significant positive relationships among auditor competency, auditors' independence and objectivity and management support to the effectiveness of internal audit.

Kimball (2016) in his argument that successful organizations are driven by Top Management that pays attention to issues that drive improvements never aligned the argument to the public service and never pointed out exactly the nature of management support that would help in addressing the reported recurring financial and non-financial irregularities. Kimball's study was in a set up where top management co-owned the business the scenario different from public sector arrangement. In as much as Internal audit needs management support and the support of the audit committee for it to deliver on its mandate and record successes, there is little literature, if any, on how internal audit should protect and defend that lobbied support and remain objective knowing top management sometimes is part of the reported frauds and other irregularities and do also have influence over the employment and stay of internal auditors in the Public Sector.

The aspect of internal audit representations in major governance and control forums throughout the organization or Ministry is indispensable in providing or delivering effective internal audit services to the expectations of oversight bodies. The presence of internal auditors in governance structures enables internal audit achieve the maximum effectiveness of assessing the risks and promptly advise management. As Drucker (2009) and other literatures may suggest, an internal audit function by its nature, is a part of management's system of internal control and thus should be an

asset and tool for management which should be represented in major governance and control forums. While Drucker argues that internal audit is a part of management's system of internal control, the study does not mention whether its presence in the organization would eliminate irregularities in the management of resources, neither does the study state what the function needs (for example, is it support that is lacking, scope of work, characteristics etc) to be relevant or do organization or the public sector really need this function to eliminate or reduce audit queries that have recurred over years as reported in the auditor general's report.

2.1.2 Independence of Internal Audit Function

The independence and objectivity of the Internal Audit Function is paramount in understanding the relevance of the Function in the Public Sector. Given the role of internal auditing in corporate governance, independence of the Internal Audit Function (IAF) has attracted great attention in the control system of organizations. Kaboi M, Kiragu D and Riro G (2018) argue that internal auditing has become a crucial part of every modern organization positioning itself for excellence in internal control, corporate governance and prudent financial management. To be effective and relevant however, internal auditing activity must be independent. The Institute of Internal Auditors (IIA) has promoted the Internal Audit Function as an independent function that provides value added assurance and consulting services (IIA Professional Guidance, 2002).

Internal Audit Function is part of the internal control processes put in place by the management of the organization to monitor and evaluate the effectiveness of internal control system.

2.1.3 Internal audit reporting relationship

In itself Internal Audit Function is also a control. Internal Audit effectively has a dual relationship, where the Head of Internal Audit administratively reports to the Permanent Secretary or Controlling Officer (Management) for support and other administrative matters; and to the audit committee for strategic direction, reinforcement and accountability. With respect to Internal Audit Function's reporting

relationship with management, there could be scenarios that would affect the performance of Internal Audit Function in the Public Sector that would be referred to as threats to Internal Audit Independence. Such threats include: the Controlling Officer approving the internal audit function's budget and work plans, Internal Audit providing advisory role to management and the head of internal audit being part of the Management Team.

Christopher. J, Sarens. G and Leung. P (2009) identified threats to internal audit independence as a result of the relationship with management and included having the chief executive officer (CEO) or chief finance officer (CFO) approve the internal audit function's budget and provide input for the internal audit plan. Providing input for the internal audit plan would mean considering the internal auditor to be a "partner" and direct internal audit work plan. However, the study did not include how such threats could be addressed as going by the law that governs public resources in the republic of Zambia controlling officers who are more like CEOs of the Public Sector are charged with the responsibility to manage the expenditure and account for the public funds or resources appropriated to the Ministries they are accountable for. Section 10 (1) of the Public Finance Management (PFMA) Act No. 1 of 2018 states that 'A controlling officer designated by the Secretary to the Treasury under Section 7, shall be responsible and accountable for the proper financial management and expenditure of public monies appropriated to public bodies in respect of all public monies collected, received or disbursed and in respect of public stores or assets received, held or disposed of by or on behalf of the ministry or department or service for which such head is provided'.

Concerning the reporting relationship with the audit committee Christopher, Sarens and Leung identified significant threats including the Head of Internal Audit (HIA) not reporting functionally to the audit committee; the audit committee not having sole responsibility for appointing, dismissing and evaluating the HIA or any Internal Audit Staff. However, the researcher did not point out how exactly that will enhance independence that would eventually positively affect the relevance of internal audit. The currently scenario is that internal audit report functionally to the audit committee and administratively to controlling officers of respective ministries. Despite having this reporting relationship suggested by Christopher, Sarens and Leung (2009), cases of irregularities in the management of public affairs have continued to occur. The

researchers did not state whether this sort of reporting relationship would need to be reinforced and with what for it to be effective.

Institute of Internal Audit Practice Advisory (IIAPA) indicated that to achieve the independence and objectivity of Internal Audit Function appropriate reporting mechanisms should be put in place such that the internal audit department having direct access to senior management. However other scholars argue to the contrary. Ahlawat S and Lowe D (2004) in an examination of internal auditor objectivity argue that internal auditors are highly influenced by their reporting position, and hence, a reporting hierarchy that includes senior management is inappropriate.

2.1.4 Internal audit and management roles

The internal auditors providing advisory rather than reviewing operations and also being part of management team creates conflict of interests thereby by impairing the independence of the auditor. The above statement has been supported by Ahmad, Z. and Taylor, D. (2009) stating ‘the underlying dimensions found to have the greatest impact on commitment to independence are: first, ambiguity in both the exercise of authority by the internal auditor and time pressure faced by the internal auditor; and second, conflict between the internal auditor's personal values and both management's and their profession's expectations and requirements’. Teoh H.Y, Lim C. C (1996) also claim that large audit fee received from a single client is the most important factor leading to impairment of perceptions of auditor independence, followed by the provision of management consultancy services.

The provision of additional services or audits initiated by management raises issues of credibility and integrity considering the close relationship between the Internal Audit Function and Management. Khelil. I. et al., (2018) claim that the risk of feared consequences is the major cause that inhibits internal auditors from reporting managerial fraud. However, the risk of feared consequences is triggered by the relationship that internal auditors have with management and top management's interest to protect the mismanagement of resources and the organisation as a whole. When red flags are raised by internal audit top management is expected to take action regardless of who is involved in the frauds. The success and relevance of internal audit

is tied tightly to the backing it gets from the management of the institutions (Shine.H.J. J, 2016). The first action should be to protect the auditors as they effectively discharge their responsibilities and duties to contribute to the attainment of organisational goals and objectives.

The internal audit function is evolving from its traditional oversight function to one that includes a wider spectrum of activities that add value to their organizations (Ahlawat. S. S., and Lowe. J. D, 2004). In a complex organisation, internal audit services become wider-reaching and affect all areas thereby increasing the level of responsibility. As the responsibility of Internal Auditors grow, so does the demand for greater accountability, independence and objectivity. The question remains as to whether the Auditors adherence to accountability, independence and objectivity really grows in an event that responsibilities grow. Mutchler, J., Chang, S. and Prawitt, D. (2001) never mentioned in their study how the three (3) items affect the relevance of Internal Audit Function and the remedy given that the provision of additional services maybe in some instances a requirement embedded in the law. Christopher, Sarens and Leung (2009) claim using the internal audit function as a stepping stone to other positions compromises independence and objectivity of the function. This certainly becomes a threat when Internal Audit Function provides advisory services to management that would be used as a stepping stone. However, in the Government of the Republic of Zambia, by law, Internal Auditors are mandated to provide such services. The PFM Act No. 1 of 2018 Section 17 (2) states that, ‘an internal auditor shall subject to the direction of the controller of internal audit, provide assurance and consulting services to the controlling officer and audit committee on all matters relating to internal controls, risk management, governance processes and submit quarterly reports to the controller of internal audit’. Christopher, Sarens and Leung did not state how such a threat can be addressed where it is a requirement of the law that Internal Audit Function should provide such a service.

2.1.5 Budgetary independence of internal audit

The effectiveness of the internal audit departments in the public sector in promoting good corporate governance and risk management largely depends on several factors including the level of organizational independence. Organisation independence covers a wider area of factors which also include budgetary status of departments. The

extent of independence of internal auditors is dependent on the budgetary status of the department. Consequently, the effectiveness and efficiency of the function depends on the availability of resources. Inadequate resources will limit the scope and quality of internal audit work (Belay, 2007). Therefore, it is imperative for the internal audit departments to have adequate resources at their disposal (Dawuda A., Aninanya G. O., and Alnaa E. S, 2015). Teoh H.Y, Lim C. C (1996) also claim that large audit fee received from a single client is the most important factor leading to impairment of perceptions of auditor independence. These researches did not perceive it from the public sector set up where departments in some cases are allowed to include a budget line in the departmental annual budgets to fund internal audit assignments.

2.1.6 Scope of Internal Auditing, Internal Audit Findings and Quality of Internal Audit Work

Understanding the extent of the role of internal audit function in an organisation is critical for the sound management of the affairs of that organisation for the purposes of achieving the strategic objectives and goals. This section discusses the role of internal audit function and the quality of work of internal auditors.

2.1.7 Scope of Internal Auditing

The intent of conducting internal audits is to provide senior management within the government lines with information useful for making decisions over the management of public affairs and also for the purposes of managing the risks associated with government systems and processes. Nissley. E (2017) argued that internal audit function can seem to serve different purposes based on one's perspective, where for the board, it may seem to serve as a process designed to review what management is doing and how. Internal auditing is part of a system of internal controls whose purpose is to add value to organizations. The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control (Ministry of Finance Internal Audit Manual, 2013). Internal audit assesses and evaluates decisions, transactions and other management engagements in order to identify the risks or deficiencies and make recommendations for corrections. Where there is evidence of existence of fraud as discovered by internal audit, it rests with management to stop the fraud. The effectiveness of internal audit ends on evidently identifying the

existence of fraud risks, risks of misstatements and other risks. Internal audit can effectively check fraud and fraudulent activities in the Public Sector. Unegbu A. O., and Kida. I. M (2011). Its focus in an organisation should be broader in order to provide services that are value-adding. The scope of the IA function need to be expanded to cover a broader range of organizational functions if internal auditors are to offer value-adding services to their stakeholders (Abuazza et al., 2015). However, the function can offer value-adding services which management in the public sector may decide to ignore for collusion purposes in order to facilitate fraud. The gap remains as to how internal audit's relevance should be defended to the stakeholders who believe the existence of IA Function in the organisation means doing away with all possible irregularities.

2.1.8 Reporting of Internal Audit Findings

Internal audit functions have a duty to evaluate the systems of organizations they are resident in and report the results of the evaluation. The function is not directly responsible to stop the frauds, mismanagement of finances and other irregularities. IIA, 2019.

Internal audit in the public sector of the republic of Zambia is not mandated to enforce the corrective measures but can only report audit results and make recommendations. Partial or non-implementation of audit recommendation could be a breeding ground for financial irregularities and mismanagement of public resources. The prevention and detection of fraud is therefore management's responsibility, MoF Internal Audit Manual.

Spencer. K.H.P, (cited in Andy Wynne 2002) on the role of evaluation of risks as to whether it is a responsibility of internal auditors, argued that main role of internal audit is to evaluate risk. It is not. Internal auditors should only review the extent that managers and board members have identified, evaluated and managed the company's risk and 'monitor the effectiveness of the system of internal control' that has been introduced to address the significant risks. The evaluation of risk is a key management task. It is a subjective assessment that should not be delegated to business advisors.

Spencer (2002)'s argument dispels the determination of the relevance of internal audit based on the idea that Internal Audit is only considered relevant when there is a reduction in financial mismanagement and irregularities. Internal audit work by its

nature is risk based. The 2016 Report to Accounts, Audit & Governance Committee of Horsham District Council, England, claimed that all internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion. Spencer in his argument stated that the evaluation of risk is a key management task. Therefore, it becomes futile to question the relevance of internal audit where management fails to evaluate risks in systems and processes. No risks evaluated no audit work. Therefore, the relevance of internal audit in relation to elimination or reduction of audit queries and, mismanagement of financial and other public resources goes hand in hand with management's commitment to evaluation and management of risks. The relationship between management and internal audit should be of mutual dependence where management should be committed to internal audit reports and implement the recommendations while internal auditors base their work on the management evaluated risks.

2.1.9 Quality of Internal Audit Work

Regarding the competence of internal auditors in doing the work, Spencer (2002) argued that internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services to direct the operations of the organization towards the achievement of its goals and objectives. In 2002, in the Republic of Slovakia, Slovenia's Central Harmonization Unit- responsible for the quality of internal audit in the public sector introduced focused trainings for internal auditors in order to achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders (Osias. K A. and Dobovisek. M, 2016).

Regardless of the trainings and competence of internal audit staff, it must, however, be recognized that there are inherent limitations in the works of internal auditors or any system of internal control including management override, human error and circumventions through collusion. Collusion may cause the auditor who has properly performed the audit to conclude that evidence provided is persuasive when it is, in fact, false (Rechtman, Y. 2019). Rechtman further puts across the argument to say collusion is born out of necessity to overcome what would otherwise be a well-designed set of internal controls.

Management override can be referred to as a desperate bypassing or disregarding of internal controls regardless of their effectiveness with intent to defraud the institution or commit a crime. The Institute of Chartered Accountants England and Wales (ICAEW) defines management override as the ability of management and/ or those charged with governance to manipulate internal controls, accounting records and prepare fraudulent financial statements by overriding these controls, even where the controls might otherwise appear to be operating effectively. In conclusion, the quality of internal audit work rests with management. Management should embark on deliberate measures to ensure that internal audit function is supported with the required trainings, resources and qualified, skilled and competent workforce

2.1.10 Audit Committee

The audit committee plays a critical role in establishing and monitoring corporate governance practices. This critical role is more visible where internal audit views audit committee as a pillar to its performance and internal control system. Where that is the case, Internal auditors have the opportunity to influence the role of the audit committee and ensure maximum effect in respect of good corporate management and control (cooper. J. B.,1993). Internal audit function is responsible for auditing the organization's corporate governance process and communicating the results to the audit committee (Drucker, 2009). The audit committee's positive responsiveness to the reports of internal audit is what entails support rendered to internal audit by the committee. Shine.H. J (2016) in understanding the support to the success of internal audit argues that the success of internal audit is tied tightly to the backing it gets from the audit committee. However, despite the fact that the Secretary to the Treasury appointed the Audit Committee for each Ministry in the public service, the success of internal audit has remained questionable in the light of reports of irregularities and Controlling Officers appearing before the Public Accounts Committee to respond to audit queries. Jami's literature never pointed out exactly how the audit committee should effectively perform with regard to the operations of the public sector, particularly that of the Zambian Government. The puzzle remains undiscovered as to whether the weakness is with the audit committee, its mandate or the internal audit function.

Magrane. J and Malthus. S., (2010) studied the effectiveness of audit committee in the Public sector of New Zealand and claimed that the audit committee is perceived by its stakeholders (management, auditors, and committee members) as being a valuable tool to assist the Public Sector in achieving proper governance. Magrane. J and Malthus. S. also identified factors which impinge upon the overall effectiveness of the audit committee being the audit committee members' independence, competence, tenure, and remuneration. Though this study was done in the public sector set up, the perception of independence, competence, tenure and remuneration of the audit committee in the Zambian public set up might be different due to differing economies, laws, regulations and other issues. It is therefore imperative to consider the effectiveness of the audit committee in the Zambian setup in relation to the factors identified by Magrane. J and Malthus. S., (2010), and how that impact on the relevance of IA Function.

Audit committee is an important element in the governance system of an organization as one of the indispensable determinants of the relevance of internal audit function (Sterck, Miekatrien, and Geert Bouckaert, 2006). The reporting structure, level of independence, composition and competencies of the audit committee are essential for its effectiveness. (Krishnamoorthy, 2008; Owolabi & Dada, 2011). The level of independence, qualification and skill, year of experience and professionalism directs the extent to which audit committee analyses the result of audit procedures and tests conducted by the auditor including senior management's responsiveness to internal audit work (Dawuda, A. A. (2010). The reporting structure is essential in lessening management's interference on the matters that auditors should report on. Where auditors report directly to the audit committee and audit committee reports to stakeholders external to the organization senior management has less influence and auditors report matters as observed. Owolabi and Dada (2011) argue that reporting relationship is important and provides the audit committee that is reliable, effective, dependable and efficient in corporate governance. Audit committee provides a range of services in corporate governance system. Among the major function of audit committee are evaluating performance of the internal audit function, employment, promotion and dismissal of the head of internal auditor and recommending the selection and firing of external auditors (Davies, 2009). However in the Zambia the audit committee do not recommend the selection and firing of external auditors neither

does the committee recommend the employment of internal audit staff but are made to support the already existing structures.

Audit committee plays the role of activating good governance practices within the organization. Alzeban A and Gwilliam D (2014) are of the view that the audit committee guarantees that public resources are protected, shareholders' funds are safeguarded and operated effectively and efficiently with the view to achieving the organizational objectives or mandates Audit and also protects the independence of internal auditors. According to Hammad et al, 2012, a good relationship between the auditor and the audit committee is pivotal to an organization to achieve sound corporate governance. This means that audit committee mandates its operations to reinforce the internal audit function by protecting their independency making sure that audit recommendations are implemented by management. For the audit committee to fulfill its mandate internal auditors plays a crucial role (Zhang Y, Zhou J, Zhou N, 2007).

The assertion by Zhang Y, Zhou J, Zhou N (2007) is harmonized with Hammad et al., (2001), who suggested that internal audit is the fundamental source of audit committee information for the committee to deliberate and enhance governance practices.

2.2 Conceptual and theoretical framework

2.2.1 Introduction

This chapter explains the conceptual framework used in the study and the theoretical Framework. The theory that underpins this study is the Agency Theory.

2.2.2 Agency Theory

Agency theory stated by Jensen and Meckling (1976) concerning the challenges which can arise in an agency relationship. The challenges would arise due to conflict of interests between the principal and the agents of the principal. In the case of the public sector, agents are Internal auditors and senior management as principal.

The agency theory addresses two sets of problems. The first problems arise because the desires and goals of the principal may not be the same as those of agent. Conflict

would be created due to the fact that the principal would not validate the agent's activities.

The second set of problems ascend because the principal and the agents of the principal may have different approach to addressing risks or different perspective of risks.

Adams (1994) in his Journal stated that Agency theory can offer far better-off and more significant investigation in the internal audit function. Agency theory explains that

internal auditing as a control, in corroboration with other controls like management support in the implementation of internal audit recommendations will help to uphold sound financial management thus reducing or eliminating reports of recurring financial mismanagements in the public sector. Mwangi, (2017) indicated that the agency theory may not only help to explain the presence of internal audit in organizations but can also help clarify some of the features of the internal audit department, for instance, size, budgetary allocation and the scope of internal audit activities, effects of management's failure to attend to internal audit reports and the recommendations.

Agency theory can empirically be engaged to test whether there is disparities between the quality and scope of internal audit work and the way management relates with internal auditors.

2.2.3 Contingency Theory

A contingency theory is an organizational theory that claims that there is no best way of to organize a corporation, to lead a company, or to make decisions. Instead the optimal course of action is contingent (dependent) upon the internal and external situation. Internal audit in most cases is used to assess the reliability of a company's information, practices, policies and procedures (Mwangi, 2017). Internal audit will report on the performance of any public institution with reference to that institution's adherence to its standard practices, policies and procedures. Any deviation results in undesired results. The existing government regulations limits public organizations to undertake independent financial audits as reference will always be to the regulations

in highlighting irregularities in the management of public affairs. The performance of that organization gets measured against the regulations (interior and exterior) regardless of the shortcomings of the regulations. The optimal course of action is dependent upon the internal situation, the regulations and the Public Finance Management Act. Numerous factors impact on the final outcomes, regardless of the nature of the audit, and the contingency theory will consider all these factors during the audit execution. Internal audit results are affected or dependent on the interior and exterior factors surrounding the audited establishments.

The Public Finance Management Act No. of 2018 mandates Internal Auditors to access documents, systems, policies, data and procedures to accomplish an audit. The auditees are only expected to comply with the standards, rules, government regulations and circulars. The auditing process begins with an entry meeting where the auditor gains an understanding of the target institution and explains the objective of the auditing, access risk and control cognizance, thereafter the audit engagement commences. Auditors perform critical audit tests including dry test controls. The tests are carried out to decide the residual error which will possibly occur despite an audit. The first stage in the audit process is planning, followed by evidence gathering referred to as field work, reporting results and lastly follow up on the implementation of the audit recommendations (Ministry of Finance Internal Audit Manual,2015).

Internal auditing in the public sector has evolved over time. The process has become more interactive where the auditee is involved throughout the audit process. The audit results are discussed and agreed upon between the auditor and the auditee. Where there's disagreement between the auditor and the auditee, the auditor issues the Factual Correctness Sheet which the auditee signs stating the reasons for the disagreement over a particular finding. Where the audit findings are resolvable, the parties come up with the agreed management action plan stating the period for the implementation of the action plan and the persons responsible for the implementation. The audit findings that cannot be resolved during the audit process are highlighted, documented and reported for action to senior management. The next course of action rests with senior management.

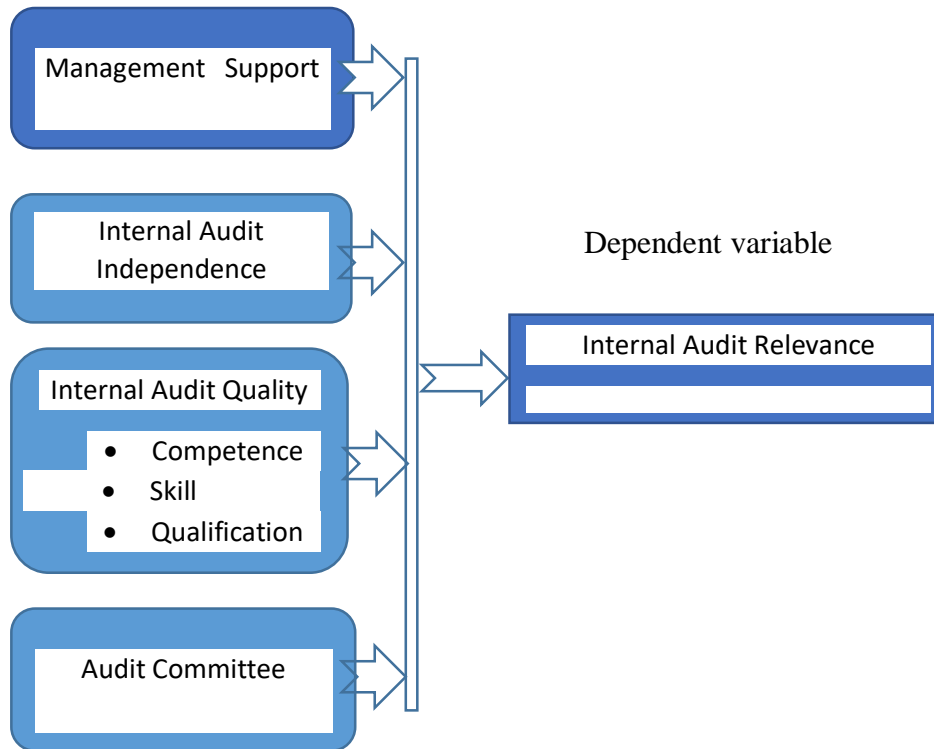
2.2.4 Research gap

The reviewed literature showed that the four variables namely management support, independence of the audit function, quality of internal audit work and audit committees have influenced the relevance of internal. Kimbell (2016) argued that management support in terms of responding to audit findings and providing a supportive environment prejudiced internal audit effectiveness. In another study, H Zeitouny (2012) also argued that the effectiveness of internal audit function is directly associated with the relationship between the internal auditors and management. On the independence of internal audit function, the review show that Kiragu D and Riro G (2018) established that internal audit independence affected the effectiveness of the internal audit. Missley (2017) argued that the quality of internal audit reports were affected by internal auditor experience, skills and the competence. Druker (2009) also suggested that competence, composition and sound reporting structure of audit committee increased the internal audit effectiveness. While the review indicates the variables that affect the relevance of internal audit, most of these studies were done in private sector environments whose systems, governance structure and risk appetite may be different from those in the public sector, particularly the Republic of Zambia. Some studies were conducted in far developed countries with proper support systems different from that of developing countries like Zambia and therefore may have unique challenges in comparison to other countries, hence the gap.

2.3 Conceptual Framework

Figure 2. 1: Conceptual Framework

Independent Variables



2.3.1 Operationalization of the Variables

The study has five (5) variables of interest. Four (4) are independent variables while one (1) is a dependent variable. The independent variables are the management support, internal audit independence, quality of internal audit work and the audit committee. The internal audit variable is dependent on the four variables. (Refer to table 2.2 below)

Table 2.2: Operationalization of the Variables

Variable	Measures
Management Support	<ul style="list-style-type: none"> • Implementation of recommendations • Management's responsiveness to internal audit observations • Introduction of internal controls • Logistical support
Internal Audit Independence	<ul style="list-style-type: none"> • Freedom to report on any matter of audit concern • Reporting structure • Independent Budgetary allocations
Internal Audit work quality	<ul style="list-style-type: none"> • Qualifications • Skills • Competence • Internal audit evaluation
Audit Committee	<ul style="list-style-type: none"> • Committee composition • Reporting structure • Proficiency
Internal audit relevance	<ul style="list-style-type: none"> • Ability to meet stakeholder expectations

Source: Samuel Gathuki Mwangi, 2017

2.4 Chapter summary

This chapter focussed on a review of related studies done by other researchers in the field of internal auditing. In all these related studies the identified determinants of the relevance of internal audit are management support, Independence of Internal Audit, quality of Internal audits and Audit committee effectiveness. These are the independent variables discussed in depth by other researches. However, the studies were done in the context of the private sector setup and not the public sector. This study sought to discuss these variables from the public sector context. Given the different approach to and perception of risk management between the private and the

public sector and also the reasons why the two different establishments exist, the findings cannot be generalised to apply to both setups.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the description of the procedures that was employed by the researcher in the study. It specifies the research design, population, sampling and sample sizes, data sources, tools used in data collection, measurement of variables, research instruments, data analysis and presentation of findings.

Respondents: The respondents consisted of staff in the Internal Audit Departments and Finance Departments of various ministries and other government institutions located within Lusaka Province.

3.1 Research Design

This study adopted a survey descriptive research design. Descriptive research design regulates and reports the real situation (Mugenda & Mugenda, 2003.) This method was suitable for the study because it was centered on fact finding and surveyed the determinants of internal audit relevance in the public institutions in Zambia. In order to address the research objectives, only qualitative approaches of data measurements were used in the collection of data. The approached was qualitative due to the fact that it involved the use of interviews, discussions and questionnaires that allowed the respondents to explain certain parameters while exhibiting own thinking and reasoning rather than selecting from the range of a scale.

3.2 Population Description

The population of interest was the Internal Auditors in the 22 Ministries within Lusaka Province. The study also targeted the heads of Finance Departments within the public service. There were 125 internal auditors in the Government Ministries and 15 heads of finance from big Ministries. Therefore, the collective population formed was 140. The nature of the study demanded targeting the population that had knowledge and experience of the field of study. Lusaka Province was targeted as it had the Ministries

and Departments with more hierarchical structures that began with more senior positions than other provinces. The spans of control in these hierarchies were also wider.

3.3 Sample size

The research population consisted of respondents from 2 different fields of 125 and 15 being auditors and heads of finance departments respectively. The sample size was selected using the formula below:

Formulas:

$$n = \frac{N}{1+N(E)^2}$$

P-value 5%

95% confidence level

Where

E is the margin of error (the level of significance)

(Reahavendra, 2009)

Therefore the sample size was as follows;

Using , $n = \frac{N}{1+(0.05)^2}$ to compute the sample size for the auditor category, the population of 125 auditors gave a sample size of 95 respondents. Also the targeted population of 15 Heads of Finance Departments gave a sample size of 14 respondents. The collective sample size was 109.

3.4 Sampling Procedure

The sample consisted of 109 respondents of which 95 were internal auditors and 14 were members of staff from finance department. The respondents were selected using a purposive convenience sampling technique. This is a non-probability sampling technique that involves selecting the respondent that were available during the time of study at the given location, and also considering the field of the study. The sampling procedure used also considered the respondents' knowledge and experience in the field of study.

3.5 Type of Data Collected

In completing the research qualitative data was collected.

3.5.1 Primary Source Data

This is the data that was collected directly from the respondents through the use of research instruments such as questionnaires, interviews and discussions. It consisted of raw data that was categorized and analysed in accordance with the research objectives. The primary data collected consisted of responses obtained on senior management's support to internal audit function and their responsiveness to internal audit observations, implementation of audit recommendations, independence of the internal audit function, and quality of internal audit work. The data on the quality of internal audit work focussed on the relevance of qualifications, skills, competencies and other factors indispensable for the purposes performing the required standard of work. The primary data obtained also covered the scope of auditing and effectiveness of audit committees from the point of view of the respondents.

3.5.2 Secondary Source Data

This is data collected from published documents. The secondary data was collected from reports, journals, books, eBooks and several other documents.

3.6 Data Collection Procedure

The researcher collected primary data by administering supervisor approved questionnaires and having interviews and discussions with the respondents.

3.7 Data Presentation

Presentation of the data is with the use of bar charts, pie charts and tables to illustrate the responses obtained from the research questions. The data obtained was used to investigate the relevance of internal audit function in the public sector in the light of mismanagement of public finances.

3.8 Data Analysis

The data was analyzed according to the research objectives. Qualitative data obtained was used to identify the determinants of the relevance of internal audit function in the public sector, the data was further used to establish the effects of these determinants on financial management and, the framework used in auditing in the public sector for the purpose of identifying where practice needed to improve.

3.9 Ethical Considerations

The respondents were informed that the information obtained was solely for academic research, which was a prerequisite for the completion of the degree program at the university. The respondents were served with a letter that explained to the respondents that the information obtained would be treated with utmost confidentiality, thereafter, the questionnaire was administered. The sources of secondary data collected from published reports, books, journals and articles on internal audit has been acknowledge through citations.

3.10 Chapter Summary

The study adopted the qualitative approach. The sampling technique involved the use of purposive convenient methods of sampling. This technique was used to target the respondents with the knowledge and experience of internal auditing coupled with availability of participants. The aggregated sample size of 109 was picked using Yamane Sample size formula from a population of 140 comprising 125 audit staff and 15 Finance and accounting staff. Data analysis was conducted in line with the qualitative research approach requirements.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter presents the findings and analysis on an investigation of the relevance of internal audit function in the public sector in the light of mismanagement of public finances. In this chapter the researcher shows the preference and good auditing aspect in relation to the factors that affect internal auditing. The study focused on using descriptive models of analysis to determine the relevance of internal audit. The data presentation is illustrated with the use of frequency distribution bar charts, histograms, pie charts and tables. The data is analyzed using charts generated with the Statistical Package for Social Sciences Version 25 SPSS and Microsoft Excel 2013. The researcher gave out 109 questionnaires comprising 99 which were given to internal auditors and 10 to respondents in Finance Departments.

4.1 Respondents demographic data

4.1.1 Work Experience of Respondents

Table 4.1 below indicates that the majority of the respondents representing 84.81 %, had work experience of more than 8 years. Respondents with less than 4 years work experience accounted for a total of 6.96 % of the total respondents, with employees of less than 1 year being the lowest in that category accounting for 1.26 %.

Table 4.1 : Work experience of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 year	2	1.26	1.26	1.26
1 to 4 Years	9	5.70	5.70	6.96
5 to 7 years	13	8.23	8.23	15.19
More than 8 years	124	84.81	84.81	100
Total	158	100.0	100.0	

The overall response rate of 84.84% represented dominance and was therefore considered reasonable. This provided assurance regarding the level of reliance in respect of the quality of data that was collected as most of the respondents had significant length of work experience.

4.1.2. Field of Study

Table 4.2: field of study for public sector internal auditors

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Accounting	93	85.3	85.3	85.3
Others	16	14.7	14.7	100.0
Total	109	100.0	100.0	

Table 4.2 shows the field of study of the respondents, the results show that 85.3% of the respondents studied accounting for their career and only 14.7% were in other fields of profession. The 14.7% means that internal audit departments had other individuals with different fields of study.

4.1.3 Professional Qualifications

The respondents were asked to state their professional qualification. The findings revealed that all the respondents had different qualifications with the most having had studied accountancy certified by different institutions with the biggest number attaining Zambia Institute of Chartered Accountants. Table 4.3 below illustrates.

Table 4.3: Professional certifications of internal auditors in the public sector organizations.

		Professional certification			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	Zambia Institute of Chartered Accountants	64	58.7	58.7	58.7
	Bachelor of Accountancy	16	14.7	14.7	73.4
	Association of Chartered Certified Accountants	21	19.3	19.3	92.7
	Chartered Institute of Management Accountants and others	8	7.3	7.3	100.0
	Total	109	100.0	100.0	

Table 4.3 above shows the professional certification who are in public sector internal audit departments. The results show that 59% have a professional certification from Zambia Institute of Chartered Accountants, 19% of the professional are from Association of Chartered Certified Accountants, 15% of the respondents have Bachelor of Accountancy and 7% of the respondents have a professional certification from Chartered Institute of Management Accountants.

4.2 Scope of Internal Audit

Table 4.4. Understanding the scope of Internal Audit

The organization staff understand the scope of work of internal auditing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	7.3	7.3	7.3
	Neutral	24	22.0	22.0	29.4
	Agree	62	56.9	56.9	86.2
	strongly agree	15	13.8	13.8	100.0
	Total	109	100.0	100.0	

The scope of internal audit function was explained in details in section 2.4 above. The overall results show that the respondents understood the scope of internal audit works. The dominant response of 56.9 % represented the respondents who agreed having a clear understanding of the scope of internal audit function while the respondents who strongly agreed to understanding the scope of internal audit function had a proportion of 13.8% of the total sample size. The implication is that the total proportion of the respondents that understood what internal audit was and its scope of work in an organisation was 70.7 %. The rest of the respondents with an aggregated minor proportion of 29.3 % comprised 7.3% of not understanding the scope of internal audit and 22.0% for the neutral. To conclude this, it is right to state that the scope of internal audit was clearly understood in the Public Sector. The negative perception of the relevance of internal audit function by the stakeholders would not be attributed to lack of knowledge over the scope of the function.

4.3 Management Support

Objective one: To evaluate senior management support to internal audit function in government ministries.

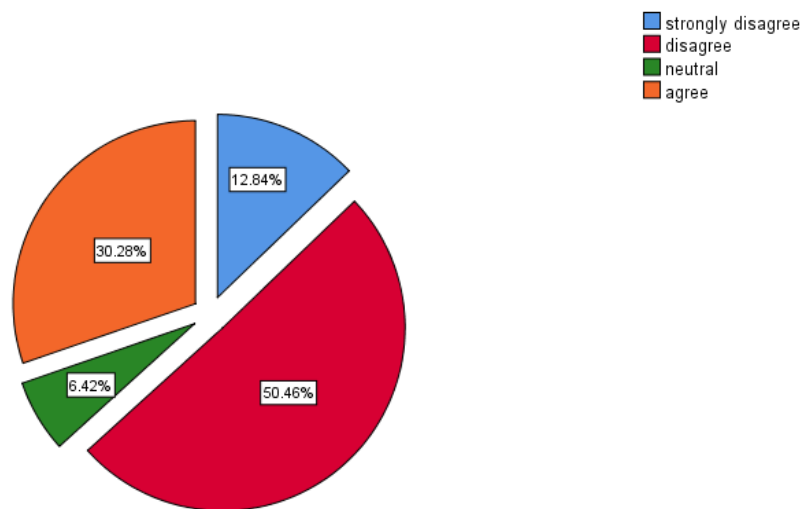
In this section the study sought to evaluate senior management support to the internal audit function as a determinant of the relevance of internal audit function. Management support was looked at in terms of interests to ensure that the issues raised

by internal auditors were resolved. Figure 4.1. The focus was on the provision of logistical support to internal audit for follow-ups on audit findings, providing a platform to discuss internal audit findings or observations with management and a reporting structure to ensure there was no interference to hinder internal audit report on any issue of concern thereby promoting independence of the internal auditors.

The respondents were therefore requested to indicate the extent to which they agreed with the statements regarding management support in their respective work stations. A scale of strongly disagree, disagree, neutral and agree was presented.

Figure 4.1: Senior Management’s Interest in ensuring that issues raised by internal auditors are resolved

Senior management shows interest and puts in efforts to ensure that issues raised by internal auditors are resolved



The overall results presented in figure 4.1 above indicates that management never had interests to ensure that internal audit issues were resolved. The dominant response representing 50.48% of the respondents disagreed, 12.84 % strongly disagreed, 30.29% agreed with the least resulting of 6.42% being neutral.

The aggregation of the responses that amounted to the majority indicated management did not have interest in resolving internal audit findings or observations. This was evident in the combination of the strongly disagree and disagree representing 12.84%

and 50.48% respectively resulting into a total of 63.32% majority proportion of the sample size. The implication is that had management got interest to resolve internal audit findings and other observations, the cited financial irregularities would not have heightened and consequently questioning the relevance of the function would not have arisen.

Table 4.5 Senior Management and audit committee

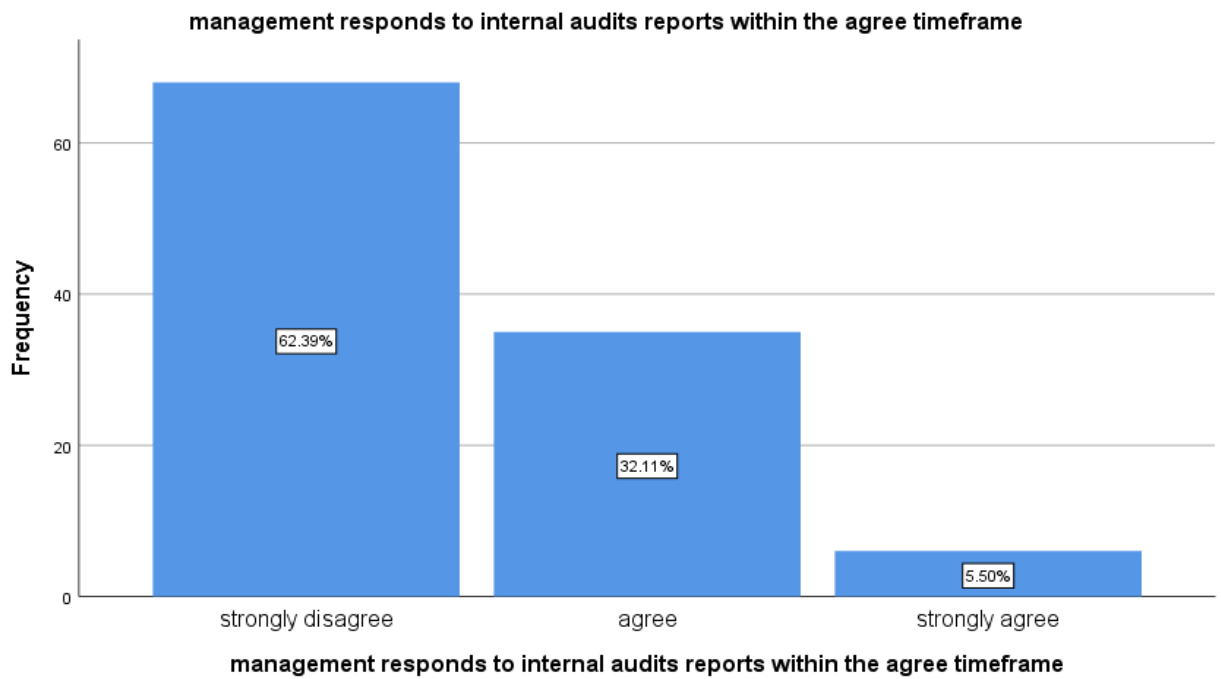
	Mean	Std Deviation	Dominant response
Internal auditors are free to report on any audit finding to senior management and audit committee	4.05	.86434	Strongly disagreed
Internal audit provides senior management and the audit Committee with useful findings and recommendations	4.19	0.55239	Agreed

4.4 Management support – Implementation of audit recommendation

Objective 2. To evaluate senior management’s responsiveness to internal audit findings and recommendation.

Figure 4.2 below is another graphical presentation of the results on management support in terms of implementing internal audit recommendations. The presentation shows that it is clear management did not implement internal audit recommendations thereby giving chances to levels of financial and non-financial irregularities to heighten. Figure 4.2 below illustrates management support regarding responsiveness to audit observations.

Figure 4.2 Management responses to Internal Audit Reports



The data obtained on management's responsiveness to audit findings accounted for 62.39% of respondents that had a view that management did not respond to audit observations promptly.

4.5 Audit Committee and evaluation of internal audit work.

Objective 3: To determine the extent to which internal audit effectiveness is evaluated in the public sector

Table 4.6 Review of quality of audit work by the audit committee

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	5	4.6	4.6	4.6
Disagree	12	11	11	15.6
Neutral	14	12.8	12.8	28.4
Agree	78	71.6	71.6	100.0
Total	109	100.0	100.0	

From the data obtained over the presence of the audit committee in the government ministries and departments, it's clear from the results presented in the table above that the audit committees existed and regularly reviewed the quality and results of internal audit work despite having 12% of the respondents disagreeing. The dominant response of 71.6% represented the respondents who agreed to the statement. The fact that the audit committees reviewed the works of internal audit function guaranteed evaluation of the quality of work of the function. The implication is that stakeholders' perception of internal audit function regarding the cited financial mismanagement and other irregularities cannot be as a result of lack of evaluation of the works of the internal audit function by the audit committee.

4.6 Independence of Internal Auditors

In this section of the study the researcher wanted to find out whether the auditors operated independently as independence of the internal audit function is one of the determinants of the relevance of the function in the public sector of Zambia. The research put across 9 statements on the independence of the internal audit

function and 77.78% were agreed to. The study conclusions show that the respondents were in agreement that internal audit operated independently without interference. Table 4.7 shows.

The respondents were required to state the degree to which they agreed with the statements regarding the organizational independence on a scale of strongly disagree, disagree, neither agree nor disagree, agree and strongly agree. Table 4.7 below shows

Table 4.7 Descriptive analysis of the independence of internal audit

Item	Strong Disagree	Disagree	Neutral	Agree	Strongly Agree
1. The Head of Internal Audit reports administratively to the Permanent Secretary and functionally to the audit committee	0.0%	17.5%	0.0%	60.5%	21.9%
2. Legislation and the audit charter defines clearly and formally, the roles, responsibilities and authority of the internal auditors.	0.0%	0.0%	0.0%	85.1%	14.9%
3. Internal auditors have free and unrestricted access to all operations, personnel, assets and transaction records.	0.0%	0.0%	0.0%	86.0%	14.0%
4. Internal Auditor are given enough resources to enable them perform and not to rely on the auditee to provide.	0.9%	83.3%	3.5%	12.3%	0.0%
5. The Controlling Officers (Permanent Secretaries) do not transfer or recommend a transfer of the head of the internal audit department or any other audit staff	0.0%	0.0%	0.0%	77.2%	22.8%
6. The IA operates totally independently, and conducts their assignment without interference	0.0%	0.0%	0.0%	80.7%	19.3%
7. Internal auditors are free and not coerced to include or remove any audit observations when reporting audit results	17.5%	82.5%	0.0%	0.0%	0.0%
8. Internal auditors are free to access or use any sensitive records, information and data (on cases of corruption, fraud and embezzlement of public resources) under investigation by investigative wings.	0.0%	0.0%	5.3%	85.1%	9.6%
9. Internal Auditor freely decide the scope, time and extent of auditing procedures.	0.0%	0.0%	0.0%	95.6%	4.4%

The results show that the respondents approved that the Head of Internal Audit reports administratively to the Permanent Secretary and functionally to the audit committee as 60.5% of the respondents agreed to the statement with 21.9% strongly agreeing. Respondents settled with the statement that legislation and the audit charter defines clearly and formally, the roles, responsibilities and authority of the internal auditors. This was represented by 85.1% of the respondents who agreed to the statement with 14.9% strongly agreeing. That meant that the roles and responsibilities were documented and followed to guide the operations of the auditors. The majority of the respondents representing 86% agreed that Internal auditors had free and unrestricted access to all operations, personnel, assets and transaction records. The findings show that 83.3% of the respondents disagreed with the statement that internal audit departments are given enough resources to enable them perform and not to rely on the auditee to provide. In situations where Internal auditors rely on the auditees for logistics, the objectivity of the auditors become compromised. According to the findings, respondents did not agree with the statement that the Controlling Officers (Permanent Secretaries) do not transfer or recommend a transfer of the head of the internal audit department or any other audit staff

internal audit. The comments of 77.2 % were that the controlling officers do recommend for the removal of internal audit staff, with 22.8% strongly supporting the comments of those that fell in category 77.2% though 80.7% of the respondents went on to agree with the assertion that internal audit department operated independently. On the statement that Internal auditors are free and not coerced to include or remove any audit observations regardless of operating independently, 82.5% of the respondents disagreed with that assertion while 17.5% strongly disagreed.

They also agreed that the internal audit members are free to access or use any sensitive records, information and data (on cases of corruption, fraud and embezzlement of public resources) under investigation by investigative wings. The agreement to the statement was represented by 85.1% majority respondents and 9.6% strongly agreed.

Finally, the results indicated that respondents approved that internal audit decides seriously on the scope, time and extent of auditing procedures. These results represented 95.65% majority with 4.4% that strongly agreed.

The findings mean that the respondents agreed on the number of aspects of the independence of the internal audit function except on the provision of adequate resources to enable the auditors perform independently without relying on the auditee to provide logistical support and, and on the freedom of internal auditors not to be coerced to include or remove audit observations when reporting. The findings that the internal auditors operated independently without interference are in agreement with Zeleke (2007) who argued that organizational independence allows the audit function to carry out work without interference from the entity under audit.

The findings that internal auditors have free access to all departments and employees in the county agree with Zeleke (2007) that audit should be conducted with complete and unlimited access to all forms of audit proof like staffs, possessions, policies and techniques of internal control systems, key material necessary for audit.

The implications of the findings are that though the auditors were independent operationally, one critical issue of independence of the auditors of not to be coerced by management to include or remove audit observations when reporting was adversely affected. This could be due to the fact that Internal Auditors lacked enough resources to perform the functions and sometimes depended on the audited institutions for resources and other logistical support.

Table 4.8 Presence of audit committee and independence of internal auditors

Cross tabulation

		I perform the auditing activities without any interference from anybody and without any influence from the office/sector.			Total
		neutral	Agree	strongly agree	
Does your organization/sector have audit committee	Y	12	74	8	96
	N	2	11	0	13
Total		16	85	8	109

Table 4.9 Audit committee and independence of internal auditors

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1.172 ^a	2	.557
Likelihood Ratio	2.118	2	.347
Linear-by-Linear Association	.441	1	.507
N of Valid Cases	109		

Table 4.9 shows the asymptotic significance value of 0.557 which is above the significant level of 0.05 indicating that there is no significant relationship between the values being tested; audit committee and independence of the internal auditors.

Table 4.8 reveals that most internal auditors do perform the auditing activities without any interference from anybody and without any influence from the higher offices. 74 of the respondents agreed in terms of auditing independence. Auditing in this context meanings the process of conducting the actual audit.

This result disagrees with most of the empirical studies from developed countries which showed that auditors are influenced in terms of auditing and there is total independence. The implication is that the independence of the auditor is mostly impaired at the time of reporting the audit results and not when auditing. Depending on the conditions surrounding the auditor the results are either reported in full with impartiality as observed or coerced to report selectively.

4.7 The quality of work of internal auditors in the public sector

This section presents data and findings on the quality of internal audit work. Quality of internal audit work was measured using Likert scales. The scales were categorised as follows: 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree.

As can be seen from table 4.10 below, majority of the respondents were in agreement with six (6) statements that measured the quality of internal audit work. 99.1% of the respondents agreed with statement number one (1) that ‘internal audit work is done in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA)’ while 0.9% strongly agreed; 77.2% of the respondents agreed with statement number two (2) that ‘Internal audit comprises staff with a broad mix of skills and experience in internal auditing in the public sector’, 19.3% were neutral while 3.5% strongly agreed; 62.3% of the respondents agreed with statement number three (3) that the Ministry’s Internal audit includes staff recognized in the public sector as experts in governance, control and risk management’, 23.7% strongly agreed while 14.0% were neutral; 92.1% of the respondents agreed with statement number four (4) that ‘Internal audit work is reviewed by experienced senior members of the internal audit team’, 61% strongly agreed while 1.8% were neutral; 93.0% of the respondents agreed with statement number five (5) that ‘Internal audit produce reports for each audit undertaken identifying both root causes and consequences of issues raised, the impact, and also make recommendations to management’ while 7.0% strongly agreed;

89.5% of the respondents agreed with statement number seven (7) that ‘Internal audit provides senior management and the audit Committee with useful findings and recommendations and 10.5% strongly agreed’.

However, the majority of respondents (57.9%) disagreed with statement number eight (8) that ‘There is regular follow-up by the internal audit to examine the actions taken by senior management to correct the problems found, 41.2% agreed with the statement while 0.9% strongly agreed.

To conclude the section, it is critical to note and mention that the findings revealed that the quality of work of the function was as expected, very good. This indicates the extent to which the effectiveness of internal audit functions is evaluated by the audit committee and other stakeholders thereby addressing both the research objective and question on the evaluation of the effectiveness of the internal audit function. The implication is that the quality of work of internal audit functions is attributed to the extent to which the effectiveness of the function is evaluated pointing out the strengths and weaknesses of the function and how best to address the shortcomings. Therefore, the irregularities cannot be attributed to the quality of internal audit work but rather to other findings of the study such as management’s failure to implement internal audit recommendations regarding the weaknesses identified in the system and also the laxity to support internal audit function which is the oversight body on financial and non-financial resources management in the public sector.

Table 4.10: Descriptive Statistics - Quality of Internal Audit work

Item	Frequencies				
	Strong Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Internal audit work is done in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA).	0.0%	0.0%	0.0%	99.1%	0.9%
2. Internal audit comprises staff with a broad mix of skills and experience in internal auditing in the public sector	0.0%	0.0%	19.3%	77.2%	3.5%
3. The Ministry's Internal audit includes staff recognized in the public sector as experts in governance, control and risk management	0.0%	0.0%	14.0%	62.3%	23.7%
4. Internal audit work is reviewed by experienced senior members of the internal audit team.	0.0%	0.0%	1.8%	92.1%	6.1%
5. Internal audit produce reports for each audit undertaken identifying both root causes and consequences of issues raised, the impact, and also make recommendations to management	0.0%	0.0%	0.0%	93.0%	7.0%
6. Internal audit provides senior management and the audit Committee with useful findings and recommendations	0.0%	0.0%	0.0%	89.5%	10.5%
7. There is regular follow-up by the internal audit to examine the actions taken by senior management to correct the problems found	0.0%	57.9%	0.0%	41.2%	0.9%
8. Does internal audit work add value to the operations of the public sector where its recommendations are implemented on	0.0%	0.0%	0.0%	78.2%	21.2%

The overall findings on the quality of internal audit are in favour of the quality of work performed by the auditors in the public sector of Zambia. The finding that internal audit work added value to the operations of the public sector where its recommendations were implemented are in support of Van Gangesberghe (2005) who stated that internal audit contributed significantly to management, while reported the audit results and on the status to the audit committee.

4.8 Internal Audit effectiveness

Table 4.11 Internal audit effectiveness

		Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly agree %
4.1	Internal audit communicates timely the results of the engagement to senior management and the audit committee for decision making	16	4	5.2	69.48	5.32
4.2	The number of audit queries raised by the internal auditors have appeared in the reports of the auditor general.	6.3	12.4	5.8	75.1	7.5
4.3	Internal Audit carries out risk based auditing covering all the departments of the ministry	4.2	4.8	6.5	80	4.5
4.4	Internal audit helps improve risk management, governance and control processes in the ministry	9.2	10.8	4.8	74.2	5.8
4.5	Internal audit has processes that monitor the status of the implementation of recommendations	0.0	1.8	18.2	68.2	18.8
4.6	Internal audit reviews the effectiveness and efficiency of the processes in risk management, control and governance	10.2	3.2	4.6	69.23	12.77

4.9 The Descriptive analysis of internal audit effectiveness

The study findings showed that majority respondents representing 69.48% agreed that Internal audit communicates timely the results of the engagement to senior management and the audit committee for decision making, and a further 5.32% strongly agreed to the statement while 16% strongly disagreed. Following the majority response, the respondents further agreed that the number of audit queries raised by the internal auditors have appeared in the reports of the auditor general (75.1% agreed and 7.5 strongly agreed). Results also show that Internal Audit carries out risk based

auditing covering all the departments of the ministry as the dominant response represents 84.5% in agreement, further to that the study also show that Internal audit had processes which monitored the status of the implementation of recommendations as indicated by 68.2% of the respondents who agreed and 18.8 % who strongly agreed against the 18.2 who remained neutral. And lastly, that Internal audit reviews the effectiveness and efficiency of the processes in risk management, control and governance as the majority of respondents stated. The table 4.11 above indicates.

The implication of the findings is that had management effectively and efficiently addressed internal audit findings and observation the reported irregularities would reduce. The conclusion is that internal audit function was effective as it highlighted and reported issues to management in good time. Issues remained unattended by management and the same issues were latter cited in the reports of the External Auditors. Only a system whose performance is regularly evaluated would be effective as was the case with internal audit function in the Public Sector of Zambia.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.0 Introduction

This chapter concludes on the discussions of the findings covered in chapter four addressing the relevance of internal audit function in the public sector. Discussions focus on the research objectives of the study which were;

- a) To evaluate senior management support to internal audit function in government ministries
- b) To evaluate senior management's responsiveness to internal audit findings and recommendation
- c) To determine the extent to which internal audit effectiveness is evaluated in the public sector

5.1 Senior Management Support

Internal auditors regard their effectiveness to be dependent on the support, caliber and personalities of the Management team in an organization (Leung. P, Cooper. B.J and Robertson. P, 2003). The study established that according to the respondents, the senior management never had interest in ensuring that internal audit observations were resolved (response rate 63.32% made of 50.48 and 12.84 for disagree and strongly disagree respectively. The study established that management never provided logistical support to internal audit to make follow-ups on audit findings that remained unresolved neither did they provide a platform to discuss internal audit findings or observations with internal auditors. The study further established that management's responsiveness to internal audit queries or observation affected the relevance of internal audit function. 62.39% of respondents had a view that management did not respond to audit observations promptly thereby heightened cases of financial mismanagement in the public sector. This agrees with the respondents' views on logistical support for internal audit follow-ups on outstanding issues or observations raised by audit staff. The implication of the finding is that the

reported irregularities that made the relevance of internal audit function to be questioned in the public sector was caused by Senior management's failure to support internal audit function. Milena A and Boru R (2011) suggested that internal audit outcomes and benefits for management depend on the purpose of internal audit and on managements' support and expectations about it. Senior management support in form of provision of logistics for the function to operate effectively and also support in terms paying particular attention to issues raised by internal audit. Carcello, J. V. et al., (2018) claimed that there are positive consequences to using the internal audit function.

5.1.1 Independence of Internal Audit Function

Internal audit independence and objectivity is to some extent threatened by relationships within an organization (Stewart, J. and Subramaniam, N, 2010). The study results show that the internal audit operated independently and had a direct sound reporting relationship to the controlling officer. Further the study established that internal auditors had free and unrestricted access to all operations, personnel, assets and transaction records of public institutions in Zambia supplemented with legislation and the audit charter that defined clearly and formally, the roles, responsibilities and authority of the internal auditors. However, the study revealed one item that affected the independence of internal audit function. This threat to independence was that Internal Auditors were not supported with enough resources to enable them perform effectively and ended up relying on the auditees (other departments) to provide logistical support. That meant that internal auditors were coerced to include or remove audit observations when reporting audit results by the auditees (funders of audit engagements). This finding demonstrated the linkage between management support and independence of the auditor which impact on the effectiveness of the audit function (Lawrence J. Abbott. L.J., et al, 2015)

5.2 Internal Audit Effectiveness

Shoosmuangpak and Ussahawanitchakit (2009) understand audit effectiveness as achieving audit's objective by gathering of sufficient and appropriate audit evidence

in order to report on compliance with generally acceptable accounting principles within a reasonable timeframe to allow for decision making by management.

To the great extent the effectiveness of internal audit function rests on management support and responsiveness to internal audit function (Philna Coetzee and Dave Lubbe, 2013). study findings revealed that Internal audit communicated timely the results of the engagement to senior management and the audit committee for decision making (69.48% agreed and 5.32 strongly agreed). The study established that the number of audit queries raised by the internal auditors had appeared in the reports of the auditor general (75.1% agreed, 7.5% strongly agreed while 12.4 % disagreed). This implied that had management responded to observations in the internal audit report, the cases would not have appeared in the auditor general's reports, irregularities would have been corrected before the auditor general conducted the audit. The study further established that Internal Audit carries out risk based auditing covering all the departments of the ministry. The risks associated with the operations of the ministries are identified early enough and recommendations presented to management to address them. However as established that management does not respond to internal audit observations in time the risks actually mature into financial and non-financial irregularities (Dr. Enofe A. O, et al., (2013). The findings of the study further indicate that Internal audit helps improve risk management, governance and control processes in the ministry. This was represented by a total positive response rate of 80%. The results of the study revealed that internal audit had processes that monitor the status of the implementation of recommendations as stated by 80%. Lastly, the study established that Internal audit reviews the effectiveness and efficiency of the processes in risk management, control and governance. However, it was a duty of management to ensure that gaps identified by the internal auditors in risk management process, control and governance are addressed and managed.

The conclusion on the objective was that internal audit function in the public sector lacked the required support and management did not attend to internal audit observations and recommendations. Had management provided logistical support and implemented recommendations the relevance of internal audit would be appreciated. The relevance of internal audit is tied tight to management's desire to use internal audit function as management tool to safeguard public resources despite the criticism (Enofe, Mgbame, Osa-Erhabor and Ehiorobo, 2013). Internal audit provides an

independent and objective review and advisory service to provide assurance to management that the entity's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective, economical and ethical manner (Dr. Enofe A. O, et al., 2013)

5.3 Audit Committee and evaluation of internal audit work.

The study recognized that the audit committee existed in the public sector as established from the results of the study (74 respondents out of the total of 109 representing 68%). The study further established that the audit committee was composed of five (5) persons who were knowledgeable and well experienced representing professional bodies including Law association of Zambia (LAZ), Zambia Institute of Accountants (ZICA), Economics Association of Zambia (EAZ), a representative of the public service at the level of the director and one retired public servant also at the level of the director representing the public. The study found that the composition of the audit committee was well vested to review and evaluate the quality of internal audit work, or overall performance of internal audit function. And finally, the audit committee made efforts to ensure that the audit recommendations were implemented by management despite having a number of audit observations and findings unresponded to. The findings are consistent with Bariff Martin (2003), who suggested that the audit committees need to be more independent and proactive in internal audit reporting and evaluation to have an effective internal audit function. The independence and accounting experience have a complementary impact on audit committee relations with internal audit. Independence is more associated with issues of process while accounting experience is associated with the extent that the audit committee reviews the work of the internal audit function (Jenny Goodwin, 2003).

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter concludes on the findings of the research conducted with a focus on the relevance of internal audit function in the public sector. Research was conducted through reviews of various literature on internal audit and also through the data collected in response to the research aim and objectives. The researcher presents the summary of the study results followed by conclusions, recommendations and suggestions for future studies.

6.2 Conclusion

This study has successfully achieved the overall objectives of investigating the relevance of Internal Audit Function in the light of mismanagement of Public Finances. The study established that all the variables in the study, which is senior management support, internal audit independence, internal audit quality (Competencies, skill and qualifications) and audit committee effectiveness are serious factors which make internal audit relevant. However, study revealed that management support had the greatest effect on internal audit relevance, followed by independence or freedom of the internal auditors to report on any matter without senior management interference, quality of the internal audit work and audit committee. It has further revealed that management support (responsiveness to internal audit results, implementation of audit recommendations and provision of logistical support for audit activities) for the internal audit departments in government ministries was not adequate, independence of the internal audit units was fairly good and the quality of the internal audit work was good. The study therefore concludes that management support greatly affected internal audit units in government ministries and consequently failure to act upon internal audit recommendations contributed greatly to recurring cases of irregularities in the management of public resources. Therefore, internal audit function was relevant to the sound financial and non-financial management in the public sector. This is in agreement with the findings of Javed H.

C, Mohammed M. H C, and Md. Nazim U. B (2017) who suggest that in spite of having few compliance requirements, internal audit is inevitable.

6.3 Recommendations

The management should always provide support to assist internal auditors by ensuring that internal audit recommendations are implemented, provide internal audit with resources for follow-ups on reported audit observations for possible closure and enhance responsiveness to audit issues. Lastly the study recommends that independence of the internal auditor should be guaranteed in order for them to discharge their duties without fear or interference.

This study further recommends that the organs responsible for corporate governance in the public sector should ensure that a framework is put in place to enhance senior management's responsiveness to internal audit findings and observations. The framework will provide a platform that will cause management to provide logistical support to internal audit function as well as ensuring that management responds to all audit findings and observations. Below is the recommended Management Support to Internal Audit Evaluation Framework.

Table 6.1 Recommended Management Support to Internal Audit Evaluation Framework

Evaluation Question	Outcome	Indicator	Data Source
What is management's view of the audit findings and observations	Management takes less time to respond to audit observations and findings	Length of time it takes to respond compared to baseline	Management letter Auditee sign off
	Internal audit function receives management responses to internal audit findings and other observations	Number of internal audit reports management responded to.	Internal Audit Recommendations Implementation reports
		Number of recurring reported internal audit queries	
Did management engage the head of internal audit to have issues contained in the audit reports resolved	Internal audit and management collaborate to supporting a sound internal control system and risk management	Number of meetings held between management and internal audit.	Minutes of management meetings.
	Effectiveness of the entity's internal control and risk management system	Number of resolved reported cases of financial and non-financial irregularities	Internal audit reports
What action has management taken against the cited departments, sections, units, or individuals	Financial and non-financial irregularities reduce. Resources are protected from mismanagement and abuse	Number of cited individuals in the audit reports. Number of disciplinary proceedings or meetings held	Minutes of disciplinary committees.
To what degree did management provide logistical support for internal audit to follow up on unresolved audit matters	Senior management subjected to disciplinary actions for failing to support internal audit function perform the duties.	Number of disciplinary cases against management	Internal audit follow-up reports Audit exit minutes
		Number of follow up assignments conducted by internal audit	

6.4 Suggestions for Further Research

This study was done in the Ministries that are in Lusaka Province only. Similar studies should be done in all the other nine provinces. The future studies should focus on establishing the factors affecting management's responsiveness to internal audit observations or factors affecting management support rendered to internal audit.

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