

## **EFFECTIVENESS OF THE SCHOOLS' INTERNAL AUDITORS IN PERAK**

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### ***Abstract***

*The research was carried out in January 2009. The study was to identify the important elements in the effectiveness of the internal auditors of primary and secondary schools in Perak. Factors were examined for the effectiveness of school internal auditor.They were experience, knowledge and skill, management support and organization setting. There are 100 respondents responded to the questionnaires. They were amongst the internal school auditors in Perak. A pre-test was carried out for the study. This study used frequencies, Pearson correlation and multiple regressions. It was found out that there were two main important factors that contributed to the effectiveness of the school internal auditors. They were such as management support and organization setting. This study proposed that in order to increase the effectiveness of the school internal auditors, the teacher's work load should be reduced and the teachers must be continually encouraged to attend seminar and courses in auditing.*

***Keywords:*** Auditing, management support, experience, knowledge and skills.

### **Introduction**

Auditing is one of the important elements in school management. Auditing at school does not only focusing on the financial aspect but also covers auditing on other aspects such as the school environment, school security, utility, water consumption, school facilities and the use of paper in school. Auditing is very important to preserve school accountability and school performance. The quality of the auditor's report can enhance public accountability and enable the school to achieve management

excellence. There are two stages of auditing, that is internal auditing and external auditing. According to the Ministry of Finance (2004), the implementation of internal auditing in the Ministry or Federal Department and State Government started when the treasury circular was first introduced in 1979. Auditors are responsible to give assurance, consultancy service and added value to the organization. At the same time, the number of internal audit unit has increased at the Ministry's level and the Federal Department and a new internal audit unit has been set up at the State Secretary level.

At the Ministry of Education level, the internal audit was set up in the year 1982. The Internal Auditors assist the Chief of Secretary Ministry to conduct audit inspections. In 1995, the School Audit Division was formed. The School Audit Division is the combination of the internal audit unit and the school audit unit. The internal audit in school is made up of teachers through the appointment from the principal. Usually, the teachers who are appointed as internal auditors have the knowledge and experience in Principles of Accounts or Commerce.

### **Problem Statement**

Auditing is a complex task and needs special attention. Furthermore, the depth of knowledge in auditing helps to implement more effective school audits. The other factor is time constraint, as auditing jobs need a longer time. For larger schools, more time would be needed to conduct auditing. For example the school internal auditors are required to check the student fee receipts. If there are over 3000 students, then 3000 pieces of fee receipts are needed to be checked. As such, it is impossible for the school internal auditors to check on every copy in such a short period of time.

The other factors which contribute to the lack of school audit effectiveness are when the school internal auditors only look for documents or records. For example, the financial statement prepared by the school's account clerk has obvious weaknesses. Sometime improper recording and filing by the school's account clerk make the work of the internal auditors more complicated.

### **Research Objectives**

The objective of the research is to identify whether:

- (i) Experience is an important element for the effectiveness internal school auditors.
- (ii) Knowledge and experience about accounting are important elements for the effectiveness of the internal school auditor.
- (iii) Management support is an important element for the effectiveness of the internal school auditor.
- (iv) Organizational setting is an important element for the effectiveness of the internal school auditor.

## **Literature Review**

Zamzulaila, Susela Devi and Zarina (2006) found that services offered by internal auditors in higher education institutions is compliance audit, fraud finance audit, financial reporting audit, efficiency economy audit and systems development and technology audit. That financial reporting audit is the most important service in higher education institutions. An effective internal audit function requires the internal auditors to report audit activity periodically to management (Mihret & Yismaw, 2007).

Audit planning involves strategic planning for a period of five years. It incorporates annual and individual planning audits. This audit planning facilitates the internal auditors in evaluating risks and identifying high risky areas. It requires the attention of the auditors. Mihret and Yismaw, (2007) said auditor's fieldwork is accumulating the evidence of current operations to ensure that the conclusion and findings are correct in the audit report. They also explained that audit working papers are required to collect evidence to produce quality audit reports. The professional internal auditors must have the freedom to carry out their work independently and objectively (Smith, 2005).

According to Peurseem (2004), communications represent one of the effectiveness factors in individual relationship at every organization level. In formal communication the internal auditors submit a structure official report to the administration management party. While informal communication involves the internal auditors working with the manager, subdivision and IT staff, and lower-ranking staff as a daily activity. Smith (2005) proposed that auditors to use a proactive approach by adducing ideas in meetings. He also proposed that auditors should "go beyond job description" to enhance the reputation of professional with an increased value to organization.

According to Mihret and Yismaw (2007), management support in the public sector with resources and commitment to implement the internal audit recommendations is essential in attaining internal audit effectiveness. The internal audit recommendations will be effective when the management makes an effort and commitment to implement all the internal audit finding and recommendations through the audit report what is provided.

Mihret and Yismaw (2007), believe that the public sector higher educational institution in Ethiopia should implement all the internal audit findings and recommendations which are provided by the internal auditor to increase the quality of auditing and as a result can determined the effectiveness of the internal auditor in one organization. Alaa Aldin (2008) view that, even the audit report which are provided by internal auditor can help management to evaluate management operation in term of

perfection, ability, efficiency and effectiveness, and economy. However, it is meaningless if management do not implement the recommendations which are provided by the internal auditor in the audit report. Meanwhile, Kwon, and Banks (2004), found that the management commitment based on the internal auditor findings and recommendation includes the acceptance and the willingness of management to implement action on internal audit findings.

Besides that, Zamzulaila, Susela Devi, and Zarina (2006), recommend that one of the roles internal auditor is to give recommendations and views based on the auditing tasks which are performed and it is the management that is responsible either to use or not the report that has been provided by the internal auditor. According to Mihret and Woldeyohannis (2008), in order to make internal auditing effective, there should be clear policies and procedures against which organization practices are to be gauged. Also, the result of the internal audit services help improve those policies and procedures. The component of the organizational setting factor rates fairly in term of its influence on audit effectiveness.

Davis (1997) states that the experience that is related to the work which comprises of task-related episodes that allow learning to occur, effects the development of at least two components of the auditor's knowledge-base content and the school. The author states that the dominant factor governing the auditor's knowledge of financial statement errors is experience. Auditors who are less experienced will show an audit objective school salary frasa lain scheme, while experienced auditors will show characteristics of both an audit objective school and transaction cycle school scheme.

Gibbins, Waller and Felix (1984) in Davis (1997) proposed that the auditors' knowledge is develop based on experience. The empirical evidence supports this contention, as specific audit skills and knowledge are acquired at different levels of audit experience (Ahamad, 2008). Several studies show that the development of the auditor's knowledge is based on experience which increases the amount and type of knowledge. Experience auditors appear to possess a well-defined transaction cycle school, while inexperienced auditors do not exhibit a well-defined the transaction cycle school (O'Leary & Stewart. 2007).

Auditors who have more experience are given broader responsibilities such as audit planning and review of work papers. The determination of a knowledge school scheme is important in assessing its impact the effectiveness and efficiency of audit strategies and judgments on a particular task. Several studies also states that the knowledge school interacts with the audit evidence school to effect knowledge retrieval from memory, and retrieval of knowledge from memory is a critical factor in audit effectiveness (Dunk, & Perera, 1997).

The determination of audit efficiency depends on how quickly explanations for audit findings can be developed and the knowledge school will directly effect how explanations are retrieved from memory. (Davis, 1997) states that experienced auditors are more likely to explain audit findings more often than inexperienced auditors. David (1996) also explains that after gaining some audit experience at least for one year, a transaction cycle scheme becomes better developed and dominates an audit objective scheme.

Although the results state that the auditors with less than one year of experience and auditors with six or more years of experience organize their knowledge bases in similar ways, this does not imply that they are capable of performing the same audit tasks with similar proficiency. This is because the experience that they have differs based on the period of their services (Davis, 1997). Employee qualities stated by Buchheit, *et al.*, (2009) in their research are divided into two categories namely the cognitive skill and behaviour skill. Cognitive skills include technical expertise, analytical skill, and considerate skill, while behaviour skills include personal skill, interpersonal skills, and organizational skills. All these skills must be processed conscientiously so that internal auditors can make decisions well.

### **Research Methodology**

The study investigated the four independent variables which were experience, knowledge and skill, management support, and organizational setting that correlate with the effectiveness of the school internal auditor. The research was conducted in 15 schools in Perak. These schools were chosen because they met the research requirements and they had teachers who were actively working as internal auditors for their schools. The research population consisted of 100 teachers each of whom held the position of internal school auditor. The sample for the research was selected based on teachers who had an accounting background and other academic background.

### **Research Instrument**

In this research, a questionnaire was used as instrument to collect data. The questionnaire was divided into two parts namely: Part A: Demographic and Part B: Variable factors which influenced the school internal auditors' effectiveness. The respondents were requested to respond from the perspective that best captured the effectiveness of school internal auditor issues faced by their school. Quantitative responses were measured using a five-point Likert Scale ranging from 1 for "highly disagree".

Before distributing the research questionnaire, a pre-test was conducted on 30 respondents who had answered the questionnaire to avoid inapplicable questions, ambiguous wording, and to determine its appropriateness for the school internal auditor. Table 1, shows five variables in this study which include dependent variable,

effectiveness and independent variables, experience, knowledge and skill, management support and organizational setting.

**Table 1: Reliability Test**

Study variables	Cronbach Alpha	No. of items
Effectiveness	.875	6
Experience	.958	6
Knowledge and skill	.877	9
Management support	.897	4
Organizational setting	.928	6

## Data Analysis

### *Profile of Respondent*

**Table 2: Profiles of Respondent**

Profiles	Frequency	Percent
<b>Race</b>		
Malay	64	64
Chinese	20	20
Indian	16	16
<b>Age of Respondents</b>		
<b>Age</b>		
26-30 years old	48	48.0
31-40 years old	40	40.0
Above 41 years old	12	12.0

**Gender**

Male	33	33.0
Female	67	67.0

**Marital Status**

Single	70	70.0
Married	30	30.0

**Qualification**

Bachelor Degree with Diploma in Education	100	36.7
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**Length of Service**

1-5 years	10	10
6-10 years	25	25
11-15 years	30	30
16-20 years	20	20
Above 20 years	15	15

**Course of Study**

Accounting	65	65
Business Management	20	20
	15	15

Table 2 shows that out of 100 respondents, 64 respondents were Malay which represent 64% of the sampling population, 20 respondents were Chinese which represent 20%, and 16 respondents were Indian which represent 16%. About 48.0% were from the age of 26 to 30 years. Forty percent were from the age of 31 to 40 years old and 12% were from the age of 41 years and above. About 33% of the respondents were male and 67% of the respondents were female. Out of 100 respondents, 70 respondents were married and 30 percent were single. All the respondents had a Bachelor Degree with Diploma in Education. About 10% of the respondent had worked as teacher for 1 to 5 years, 25% for 6 to 10 years, 30% for 11 to 15 years, 20 percent for 16 to 20 years and 15 percent for above 20 years. Most of the respondents

65% had qualifications in accounting, 20% with qualifications of business and 15 percent with other qualification.

**Table 3: Total Number of Students in the Class**

No. of Students	Frequency	Percent
21-25 students	30	30.0
26-30 students	35	35.0
31-40 students	20	20.0
Above 41 students	15	15.0
Total	100	100

Table 3 shows that 30% of the teachers had 21 to 25 students, 35% had 26 to 30 students, 20% had 31 to 40 students and 15% of the teachers had above 41 students.

**Table 4: Burden of Teaching Time**

No. Of Teaching Hours	Frequency	Percent
5-10 hour/week	20	20.0
11-16 hour/week	25	25.0
17-20 hour/week	40	40.0
21-30 hour/week	10	10.0
Above 31 hour/week	5	5.0
Total	100	100

Table 4 shows that 20% of the respondents taught between five to 10 hours per week. 25% respondents taught between 11 to 16 hours per week, 40% of the respondents taught between 17 to 20 hours per week, 10% of the respondents taught between 21 to 30 hours per week and 5% of the respondents taught more than 31 hours per week.



**Table 5: Distribution of Respondent by Types of School**

Types of school	Frequency	percent
Primary School	60	60.0
Secondary School	40	40.0
<b>Total</b>	<b>100</b>	<b>100</b>

Table 5 shows 60% of the respondents were from primary schools and 40% of the respondents were from secondary schools in Perak.

### Internal Auditor Quality

**Table 6: Internal Auditor Quality**

No.	Item	H D (%)	D A (%)	S A (%)	A (%)	H A (%)	Mean
B1	Internal auditor's expertise must have knowledge, skill and other expertise for running auditing system and operation.	0	0	4.0	56.7	43.3	4.43
B2	Internal auditors must always improve skill through internal training and development field professional design.	6.7	16.7	13.3	36.7	26.7	3.60
B3	Do audit planning before implement audit task.	0.0	0.0	16.7	40.0	43.3	4.27
B4	Report all audit activities to school management.	16.7	10.0	6.7	43.3	23.3	3.47
B5	Freedom to carry out audit task independently and objectively.	0.0	6.7	23.3	30.0	40.0	4.03
B6	Audit task gave pressure to internal auditor school.	20.0	36.7	10.0	20.0	13.0	2.70
<b>Mean of internal auditor quality</b>							<b>3.75</b>

HD –highly disagree; DA- disagree; SA-Somewhat Agree; A-Agree; HA- highly agree Table 6 shows the highest score was “internal auditor’s expertise must have knowledge, skill and other expertise for running auditing system and operation” (M=4.43), and followed by “Do audit planning before implement audit task” (M=4.27).

### *Internal Auditor Experience*

**Table 7: Internal Auditor Experience**

No.	Item	H D A (%)	D A (%)	SA (%)	A (%)	H A (%)	Mean
C1	Auditors’ knowledge develop based on experience	0.0	0.0	0.0	40.0	60.0	4.60
C2	Failed to interpret and audit financial statement because of less experience	16.7	30.0	16.7	33.3	3.3	2.77
C3	Experience can increased audit efficiency	0.0	10.0	3.3	40.0	46.7	4.23
C4	One year experience is enough to produce good audit report	23.3	26.7	20.0	30.0	0.0	2.57
C5	Outcomes from management school opinion in audit school process	0.0	0.0	10.0	40.0	50.0	4.40
C6	Based on existence experience, audit prove easier to trace	0.0	0.0	6.7	53.3	40.0	4.33
<b>Mean on internal auditor experience</b>							<b>3.82</b>

HD –highly disagree; DA- disagree; SA-Somewhat Agree; A-Agree;HA- highly agree

Table 7 shows the highest score was “auditors” knowledge develops based on experience.”(M=4.60), and followed by the “take management school opinion in audit school process”(M=4.40).

### **Internal Auditor Skill and Knowledge**

**Table 8: Internal Auditor Skill and Knowledge**

No.	Item	HD (%)	DA (%)	SA (%)	A (%)	HA (%)	Mean
D1	School internal auditor must have knowledge and skill about editing	0.0	20.0	0.0	26.7	53.3	4.13
D2	School internal auditor must come from accounting and business management study background	0.0	36.7	3.3	20.0	40.0	3.63
D3	School internal auditor needs to have combination knowledge of accounting, auditing and business management.	0.0	6.7	3.3	40.0	50.0	4.33
D4	Cognitive skill such as technical, analytical and consideration skill is important	0.0	0.0	0.0	66.7	33.3	4.33
D5	Intrapersonal skill is needed to solve audit audit problem	0.0	0.0	0.0	80.0	20.0	4.20
D6	Communication, problem solving, computer and IT skill is important criteria to evaluate school internal auditor effectiveness	0.0	6.7	10.0	53.3	30.0	4.07
D7	Internal auditors who have IT skill can implement their task more efficiency	0.0	0.0	6.7	56.7	36.7	4.30
D8	IT skill will increase efficiency and reduce cost and human error	0.0	0.0	16.7	50.0	33.3	4.17
D9	Higher knowledge can decrease audit pressure	0.0	0.0	23.3	53.3	23.3	4.00
<b>Mean of internal auditor skill and knowledge</b>							<b>4.13</b>

HD—highly disagree; DA- disagree; SA-Somewhat Agree; HA-highly agree.

Table 8 shows the highest score was “school internal auditor needs to have combination knowledge of accounting, auditing and business management” and “Cognitive skill such as technical, analytical and consideration skill” (M=4.33), followed by the “internal auditors who have IT skill can implement their task with more efficiency” (M=4.30).

**Table 9: Management Support**

No.	Item	HD (%)	DA (%)	SA (%)	A (%)	HA (%)	Mean
E1	School management gave cooperation on preparing school audit report	0.0	0.0	3.3	56.7	40.0	4.37
E2	School internal auditor always found error that made by the school financial management	23.3	23.3	13.3	40.0	0.0	2.07
E3	School management always ignores audit report that provided by school internal auditor.	40.0	26.7	23.4	10.0	0.0	2.03
E4	School management always takes relevance action on school internal auditor's finding and recommendation.	0.0	3.3	26.7	50.0	20.0	3.87
<b>Mean of management support</b>							3.24

HD —highly disagree; DA- disagree; SA-Somewhat Agree; A-Agree; HA- highly agree

Table 9 shows the highest score was “school management was gave cooperation on preparing the school audit report” (M=4.37), and followed by “school management always takes relevance action on school internal auditor finding and recommendation.” (M=3.87).

### Organizational Setting

**Table 10: Organizational Setting**

No.	Item	HD (%)	DA (%)	SA (%)	A (%)	HA (%)	Mean
F1	Knowing and learn about auditing policy and procedure	6.7	13.3	23.3	56.7	0.0	3.30

F2	Disclose auditing policy and procedure through attended courses	6.7	33.3	6.7	53.3	0.0	3.07
F3	Apply audit procedure when implement audit task	3.3	16.7	20.0	60.0	0.0	3.37
F4	Vision, mission and school strategies help in auditing task	3.3	10.0	13.3	56.7	16.7	3.73
F5	School internal auditor always assumed as a higher class post position in school	0.0	13.3	56.7	10.0	20.0	3.37
F6	School internal auditor always trust in implementing audit task	0.0	0.0	3.3	60.0	36.7	4.33
<b>Mean of organizational setting</b>							3.53

HD –highly disagree; DA- disagree; SA-Somewhat Agree; A-Agree; HA- highly agree

Table 10 shows the highest score was “School internal auditor always trust in implement audit task” (M=4.33), and followed by “vision, mission and school strategies help in auditing task” (M=3.73).

**Correlations among the Research Variables**

**Table 11: Correlations among the Research Variables**

		effectiveness	experience	knowledge	support	organization
effectiveness		1	.525(**)	-.347	.471(**)	.794(**)
	Pearson Correlation					
	Sig. (2-tailed)		.033	.060	.009	.000
	N	30	30	30	30	30
experience		.525(**)	1	-.126	.147	.524(**)
	Pearson Correlation					
	Sig. (2-tailed)	.003		.506	.438	.003
	N	30	30	30	30	30
knowledge		-.347	-.126	1	-.263	-.143
	Pearson Correlation					
	Sig. (2-tailed)					
	N					

			.506	.	.160	.450
		.060	30	30	30	30
		30				
support	Pearson	.471(**)	.147	-.263	1	.225
	Correlation					
	Sig. (2-tailed)					
	N	.009	.438	.160	.	.232
		30	30	30	30	30
organization	Pearson	.794(**)	.524(**)	-.143	.225	1
	Correlation					
	Sig. (2-tailed)					
	N	.000	.003	.450	.232	.
		30	30	30	30	30

\*\*Correlation is significant at the 0.01 level (2-tailed).

Table 11 shows the result between effectiveness and experience. The correlation between effectiveness and experience indicates that there is a 0.525 moderate relationship between these two variables. The relationship is positive r and statistically significant. The 2-tailed significant test shows a probability of 0.003; also indicates that there is significant relationship between the two variables.

The table also indicates that the correlation between effectiveness and management support is 0.471. There is a moderate relationship between effectiveness and management support. This relationship is also statistically significant. It can be represented in two ways of the Correlation tables. The 2-tailed significant test shows a probability 0.009 that also proves that it is statistically significant.

The third relationship is between effectiveness and organizational setting. Those variables indicates a strong relationship with the correlation of 0.794. Moreover, the 2-tailed significance test shows a probability of 0.000, indicating that these variables have a statistically significant relationship.

**Table 12: Model summary and coefficients**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	.872(a)	.761	.723		1.64114
a Predictors: (Constant), ORGANIZATION, KNOWLEDGE,SUPPORT, EXPERIENCE					
<b>Coefficients (a)</b>					
(Constant)	3.899	4.944		.789	.438
Experience	.180	.163	.127	1.107	.279
Knowledge	-.100	.060	-.170	-1.667	.108
Support	.516	.203	.263	2.540	.018
Organisation	.544	.099	.644	5.510	.000

A Dependent Variable: Effectiveness

Table 12 shows the R-square ( $R^2$ ) value which identifies the portion of the variance accounted for by the independent variables which is approximately 76.1 % of the variance in the effectiveness of school internal auditor which included for experience, knowledge, management support and organizational setting. This value indicates that these four factors explained the effectiveness of the school internal auditor by 76.1%. This means that there are other factors which not be considered.

The adjusted  $R^2$  is considered a better population estimate and useful when comparing the  $R^2$  value between models with different numbers of independent variables. The values of adjusted  $R^2$  indicates 72.3 % changes of the dependent variables. The effectiveness of the school internal auditor can be explained by the four independent variables which are experience, knowledge, management support and organizational setting.

The  $\beta$  values indicates the highest relative influence of the variables that is, organizational setting ( $\beta = 0.644$ ), followed by management support ( $\beta=0.263$ ), experience, ( $\beta = 0.127$ ), in knowledge ( $\beta = - 0.17$ ).

### **Conclusion**

Based on the results that we obtained, it conclusion as found that ere were two main important factors that contributed the effectiveness of school internal auditor. These factors were management support and organizational setting. The management support with resources and commitment to implement the internal audit recommendation was essential in attaining audit effectiveness. Meanwhile organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office, and also the organizational policies and procedures that guide operation of auditing. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that the internal auditor can achieve. In conclusion, it was on the effectiveness of the school internal auditor is very important. Therefore, the study should be continued and the sample of the study should include or involve all regions of Malaysia.

### **Recommendation**

It is proposed that all schools especially primary schools should appoint internal auditors from among teachers who have backgrounds from Accountancy and Business Management educations. This is because, these teachers understand and know more about audit procedures. Other than that, the researchers also recommend that the Education Division in District Department of Education or the State Departments of Education must monitor audit duties and audit procedures at school to avoid occurrences of fraud and deviation in finance accounting recording process at school.

To ensure that the school audit process are run effectively, the school management especially headmasters need to give full co-operation to the school internal auditors. The workload of teachers who are appointed auditor in school must be reduced. For example, it could be done by reducing the teachers' co-curriculum activities so that the school intenal auditors are able to carry out their tasks more effectively. Teachers who are being appointed as school internal auditors should be encouraged to attend auditing courses and seminars to increase and update their knowledge in auditing.

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