

Modernization Of The Public Sector Internal Audit Function Following The COVID-19 Pandemic

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Abstract

With the COVID- 19 pandemic, organizations are faced with increased asset risk, susceptibility to fraud and fraudulent practices and general uncertainty. It is imperative that organizations internal audit functions are equipped to tackle these risks. There is need for the internal audit (IA) function to be more proactive in their audit approach, adopt more ICT skills and tools, broaden their scope, be more forward looking and focus on dynamic risks that the organizations face. The objective of this study is to evaluate the changing role of the internal audit function in the public health sector following technological advancements and the covid 19 pandemic. The exploratory research design was adopted with 35 questionnaires administered to public sector internal auditors in cross river state. The results were analyzed using simple percentages and themes identified and discussed. The results of this study reveal that the pandemic has affected how the IA public sector unit carries out its audit work and in response to this, some changes have been made to their audit approach. The use of ICT tools which has been a requisite given the present conditions has been adopted but has not fully become operational. Findings also reveal that the IA function is not currently part of the risk assessment exercise in their organization, which is a very essential requirement of the agile audit approach recommended in uncertain times. It was concluded from the study that the IA function needs to adopt the agile auditing technique which is particularly relevant in uncertain and changing circumstances times. The IA function of public sectors entities should fully implement the use ICT tools in their audit assignments and also adopt risk based audit approaches given increased risk that organizations face as a result of the COVID -19 pandemic. From the results above, it is recommended that the IA function needs to be proactive, leverage on ICT tools available to improve their process and functions to tackle that increased risk that public sector organizations face.

Keywords: Risk Assessment, Internal audit modernization, asset risk, COVID -19

Introduction

The public sector is the largest economic force majorly due to its large levels of expenditure and volume of activities that cuts across many ministries, departments and agencies (MDAs). The volume of activities and complexities in the public sector increases its risks. Global technological advancement and the outbreak of the COVID 19 pandemic has increased even more so the risk that public sector organizations face. The COVID-19 virus affects the health of people and spreads very quickly, requiring a

speedy build up of the health care system and introduction of steps such as social distancing measures to reduce the spread of the virus. These measures bear on employee's ability to work and lead to great impact on the economy. According to PEMPAL (2020), how quickly the global and national economy recovers from the pandemic depends largely on how effectively the public sector responds to the COVID-19 pandemic which requires quick and costly actions that will put tremendous strain on internal controls and increase the likelihood of fraud and error. To address this, the internal audit (IA) function will need to adopt measures to carry out their work effectively to help public sector institution to achieve their goals in tackling the pandemic. How the internal auditors carry out their work given the new normal is very vital to their effectiveness. The internal audit (IA) function is one mechanism put in place to help check and control organizations risks.

The IA function has advanced over the years and moved from a mere paper checking and providing financial assurance to performing a more advisory role (Lehmann & Thor, 2020). The IA role in the past focused mainly on review of internal control systems and providing assurance on basic risks that organizations face, but this has changed greatly in recent times. This change is necessitated by changing business operations that have become more complex, technological advancement, increased risks that organizations are exposed to and recently the COVID 19 pandemic. According to Kristensen, Manocaran, Sannini & Usman (2021), the IA function has been required to deliver a wider range of services as a result of increased risk and complexities that organization face. Focal point (2020) in their insights on the future of internal audit, state that with technological advancement permeating all aspects of organizations, the IA function must expand their skill set, work with other units within the organization to effectively reduce risks, improve internal control systems, identify inefficiencies and lapses within the organization.

The recent financial management reforms in the Nigerian public sector saw a move to a more computerized/ digital public financial management. With the advent of reforms initiatives such as IPPIS, E-payment, GIFMIS and TSA, it becomes imperative that the IA unit is also able to develop and advance its skills set to affectively dispel its functions. The IA function must be able to respond to these organizational changes and to do this, the IA function must innovate itself (Protiviti, 2018).

Protiviti (2021) in their paper on reskilling internal audit in the new normal, state that the COVID-19 pandemic has compelled organizations to embrace digital technologies. As risks and complex processes faced by entities changes, the internal audit functions also need to go through a transformation journey and equip themselves with new skills and capabilities. The modern day public sector IA function should do more than just revealing what happened in the past. It should offer a quick and dynamic view of risks that the organizations face, leverage on data and ICT to provide assurance that improves present processes and also help prevent future problems. It is in the light of this, that this study seeks to assess how public sector IA functions have adjusted and adapted the new normal as a result of the pandemic.

Statement of problem

With the COVID-19 pandemic, organizations have had to undergo tremendous changes, undertake initiatives to modernize processes and modes of operations all of which introduce new risk as well as increase existing risk that they face. The COVID-19 pandemic posed huge challenges to business organization from threats to business continuity, increased asset risk as a result of the lockdown,

redundancy/brain drain, budget cut, reduced staffing due to partial services, reduced quality of audit work as a result of social distancing, threats to internal control system due to remote working and fear of coming in contact with others especially in the health sector. According to the IIA (2020) in their publication on “Internal audit in the COVID-19 era: posited that the pandemic presents the most rigorous test of business continuity imaginable — a massive economic disruption by a terrifying disease in a world that has become significantly more intertwined. With all of these challenges brought on by the pandemic, internal auditors must weigh how the pandemic is affecting their organizations, how to help, and how to stay relevant by bringing new value to the table.

There are a number of potential risks which the IA function faces following the pandemic which will question their effectiveness. The existing internal control systems may no longer be aligned with the current situation, audit plans and processes which are no longer relevant, inadequate or the outright absence of ICT tools to facilitate IA work in the present work environment. The public sector even more so is worse hit by the challenges, considering the non-challenge of government officials, the bureaucracy involved in the public sector.

Objectives

Considering the increased risk which organizations are faced with as a result of the pandemic, the major objective of this research is to assess the changing role of the public sector internal audit function following the Covid-19 pandemic. Specifically, attention will be paid to assessing the;

- i. Adoption and use of ICT tools by the IA function following the pandemic
- ii. Risk assessment by the IA function following the pandemic
- iii. Modification of the internal audit plan following the pandemic

Public sector Internal Audit Function

Inyang et al (2021) describes the internal auditor as an organization’s “critical friend” that can challenge current practice, further practice and be a catalyst for change. The public sector IA function includes risk evaluation at all levels, analyses of operations and processes as well as other assigned responsibilities. Public sector internal auditors are required to assist in improving organizations processes and operations. The diverse nature of the public sector places increasing importance and value on independence of the internal auditor essential his credibility. Internal auditors are an integral part of the organization, their independence is even more challenging as its functions are performed across different levels within an entity, or within a broader framework that covers a set of similar entities. The same principles and rules apply to these different organizational levels of internal auditing.

The internal audit function which is seen as part of an organization’s corporate governance mechanism (Odom, 2012) has been described as value adding and contributing to improving organizations operations and processes. In the public sector, both globally and locally, the IA function is seen as a tool for effective management. The Institute of Internal Audit (2012) posits that the public IA function public is an essential component and must be organized a way that ensures the attainment of accountability and transparency to the general public, while at the same time allowing them to efficiently, effectively and cost-effectively meet set objectives. The internal auditors are part of the organization unlike the

external auditors, hence credibility and independence, as well as their advisory role, are becoming a challenge giving rise to potential conflict of interest.

Many economies and well as organizations are facing huge challenges with regard to their internal audit functions and even more so in the public sector. The public sector IA function serves a simple administrative role comprising majorly of checking the accuracy of transactions, verification of assets and prepayments, and providing reports on past events to management. In recent years, the IA function has seen a revolution. Deloitte (2011), attributes this revolution to a number of factors; government placing more emphasis on transparency and accountability in the use of public funds, larger volume of activities requiring more specialist and technical skills and the general need to improve public sector operations.

Mihret et al (2007) posits that in the public sector, the IA function performs both finance related audits and performance audits which put together contribute to improved performance. In public sector organizations, the internal audit function holds high potential for promoting accountability and improving government performance (Ali et al; 2007). A number countries several countries designed policies to improve the public sector internal audit functions and enhance their capacity for achieving set objectives. Establishment of internal audit units, professional guides for conducting audit work, increased training and resource allocations, use of ICT tools etc, were all measures taken by the government to improve the effectiveness of the IA function (Ali et al; 2007).

Modernization of the public sector IA function

The pandemic has shown that the IA function can no longer carry out its activities as usual. For the IA function to add value, the scope of audit work has to be broadened to cover a wide range of risks as well as new risks that may arise as a result of the pandemic. According to the IIA (2020), the internal auditor should see the pandemic as an opportunity to add new dimensions to their audit work to include participation in crisis management, identify new and changed risks and find new ways for auditors to work remotely, ramp up on ICT and data analytics. The internal auditor should adapt to the current situation, be proactive and consider alternative and suitable methods of carrying out their functions given the new normal. According to PEMPAL (2020), the modern IA function needs to shift focus to the front-end role of internal audit which entails providing consultancy and advisory services to management and also adopt an agile and flexible approach to audit planning, shift resources and audit activities to reflect changes in organizations risks and priorities.

Eke (2018) describes the modern IA function as a “professional who adds value and improves performance” and has moved passed voucher verification and paper ticking. The modern IA function requires a shift of focus to a forward looking advisory role, swift decision making, and acute to audit activities that are no longer priority to emerging risk brought on by the pandemic. It requires the internal auditor to be proactive, pragmatic and be prepared to tackle the risk that organizations face as a result of the pandemic. For the IA function to be pragmatic and deliver service effectively there is need to adopt and/or increase the use of technology to carry out its functions while providing valuable insights. Prior empirical research shows that the effective use of ICT tools is vital to the success of the internal audit function. Akinyele & Olanipekun (2019) in their study on the effect of information technology on internal audit in south western universities using factor analysis show that a significant

positive relationship exist between information technology and internal audit. Similar views are shared by Moorthy et al (2011) who emphasize the need for the IA function to adopt global trends in the use of IT in its activities in order to provide a controlled environment in delivering audit processes. Considering the increased and changing risk, economic volatility that organizations are exposed to, the use of ICT tools is even more so relevant in present times.

Agile audit

KPMG, (2020), describes agile internal audit as audits that are instituted on the change management methodology that are built to suit the constantly changing circumstances as that presented by the pandemic. They recommend agile audits as one of the predictions to transform internal audit in the face of the new normal. The agile audit allows for shorter, iterative and flexible audit approach that delivers large impact when new initiatives or substantial interruption in business operations take place. The pandemic interrupted traditional operating systems requiring organizations to quickly adapt which created changes in exciting risk profile and even created new risks. As a result of these changes, the IA function is required to also flex swiftly and also adopt ascendable and flexible audit approaches and techniques.

The pandemic presents an opportunity for the IA function to adopt a more proactive, pragmatic and agile audit approach which provides enhanced insights and promotes prompt response to changing risk that organizations face. Agile auditing revolves around a more fluid, iterative planning on a continuous basis as against the traditional rigid, single phase planning of audit (Galvanize, 2020). KPMG, (2020) enumerated a number of benefits that can be derived from the adoption of the agile audit approach to include; reduced cost, improved quality of service and efficient service delivery. They state that it allows for a timely and fit-for-purpose approach to providing assurance in these changing times. Agile audit is centered around: shorter and accelerated audit cycles, increased audit quality and reduced cost, timely insights and reporting, improved and continuous communication, value driven, focus on risk assessment and continuous of key risk areas. PEMPAL (2020) in their publication on the impact of COVID-10 on the role and activities of internal audit emphasize the need for an agile and flexible approach to audit planning, make swift decisions and cut out audits which are no longer relevant. Kretchmar, (2020) opines that increasing the frequency with which risk assessment is carried out in important to help organizations reprioritize top and emerging risk that they face as a result of the pandemic.

Methodology

For the purpose of this study, the exploratory research design was adopted. Considering the fact the study area is a relatively new and few studies have been conducted on it, the exploratory research design will help the researcher gain better understanding and insights into the subject. It will help develop hypothesis, gain familiarity with the basic understanding of how the pandemic affects the IA function, identify issues and give direction for future research. The population for this study comprised the 35 internal auditors from 3 public health institution in Calabar, Cross River State, Nigeria.

Data for the study were obtained using a structured questionnaire containing both dichotomous and open-ended questions administered to all 35 staff of the internal audit department of the three public health institutions. The choice of both dichotomous questions and open-ended questions was to make it

easy for the respondents to answer and also allow them the liberty to give their thoughts on the subject of study to enable the researchers get more insights into the subject matter. The questionnaires contained both questions on demographics as well those bothering on the subject matter.

To test the validity of the research instrument, a sample of the said questionnaires were administered to academic staff of the department of accounting of the University of Calabar. The inputs and corrections made from the pilot survey were then incorporated and effected before administering same to the respondents.

Of the 35 questionnaires administered, 29 was completed and returned, giving a response rate of about 83%. Considering the size of the respondents, the responses obtained were analyzed manually using simple percentages; themes were identified and discussed further. To aid the discussion, the responses were grouped into three major sub topics (audit plans, risk assessment and use of ICT tools) in line with the study objectives and discussed in that line.

Data presentation

Table 1: showing percentage responses to questions on audit plan and IA activities.

S/N	Questions	YES	No	Total
1	Has the COVID-19 pandemic affected how you carry out your audit work?	90%	10%	100%
2	The internal audit function gave priority to updating the audit plan following the covid 19 pandemic	51	49%	100%
3	Are you able to leverage enterprise data to conduct your audits and continuous monitoring more efficiently and effectively	82%	18%	100%
	New engagements have been added to your audit function as a result of COVID-19	82%	18%	100%

Table 2: showing percentage responses to question on IA involvement in risk assessment

S/N	Questions	YES	NO	Total
1	Does the internal audit function carry out risk assessment?	-	100%	100%
2	Is the internal audit function involved in risk assessment for your organization?	-	100%	100%
3	The internal audit function has reprioritized its functions to address new challenges that organization face	61%	39%	100%
4	Is the internal audit function positioned to respond to the changing risks your organization faces as a result of digital transformation and the COVID-19 pandemic?	58%	42%	100%

Table 3: Showing use of ICT by the IA function

S/N	Questions	Yes	No	Total
1	Have you started to use data and/or technology to enhance the internal audit function or still rely on the same methodologies and resources	52%	42	100%
2	Do you use any ICT tools in carrying out your audit work	63%	47	100%

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3	will the use of ICT help facilitate the IA function following the pandemic	100%		100%
4	How will ICT help facilitate the IA work	***		100%

**A new technology tool “health in the box” recently been introduced to one of the health institutions but not fully operational

***reduced volume of work, swift reports and communication, improved data storage, help remote working

Discussion

Table 1 shows the result on assessment of IA plan and functions following the pandemic. 26 respondents representing 90% of the respondents agree that the pandemic affected how they carry out their audit work. When asked how, they stated that due to them working skeletally and rendering partial services, there was pressure to complete so much in a short time which affected the quality of work, and the fear of the contacting the virus made it impossible for them to carryout work in some units including the ICU, isolation centre and some wards which left a lot work undone. There was difficulty in accessing data considering that the entire hospital was working skeletally. 82% of the respondents agree that they are able to leverage organization data to carry out their audit work which is vital to the quality of work and report communicated. 51% of the respondents agree that priority was given to updating the audit plan, following the pandemic and 49% were in disagreement. When asked if new engagements have been added to the IA function following the pandemic, 82% of the respondents answered Yes and 18% answered NO and 61% of respondents agree that the IA units has reprioritized its function following the pandemic. The general consensus is that to a large extent, traditional audit methods are still being applied in carrying out audit assignment, but additional work is required especially as it concerns verification also additional sub units have been created.

Table 2 above shows the results from respondents on questions relating to risk assessment. All the respondents (100%) agree that the IA function does not carry out risk assessment and also agree that the IA function is not involved in the organizations risk assessment exercise. When asked if the IA is positioned to respond to changing risk that their organizations face as a result of the pandemic, 58% agree and 42% disagree. 61% of the respondents agree that the internal audit function has reprioritized its functions to address new challenges as a result of the pandemic while 39% disagree.

Table 3 shows the results on the use of ICT tools in carrying out the internal audit assignments. 52% of the respondents agree that they have begun to use ICT tools in their audit work while 48% disagree. The respondents from one of the three institutions who were in agreement, went further to explain that the hospital management recently introduced and ICT tool called “health in the box”, which is supposed to give real time information and data on the entire organization. The tool has not yet become fully operational as they still carry out their audit work manually and use the tool for comparism which in most cases there are discrepancies. All 29 respondents (100%) agree that the use of ICT will help facilitate their audit work. When asked how, they listed the following as benefits that will be derived from the use of ICT; reduced volume of work, better and swift reports, effective communication, facilitate date storage and also help remote working

Conclusion

This study sought to see how the IA functions of public sector has adapted to the new normal following the COVID-19 pandemic. The results of this study reveal that the pandemic has affected how the IA public sector unit carries out its audit work and in response to this, some changes have been made to their audit approach. The use of ICT tools which has been a requisite given the present conditions has been adopted but has not fully become operational. Findings also reveal that the IA function is not currently part of the risk assessment exercise in their organization, which is a very essential requirement of the agile audit approach recommended in uncertain times. More needs to be done for the IA function to effectively tackle the increased and new risk which the organizations face in order to add value.

The IA function needs to adopt the agile auditing technique which is particularly relevant in uncertain and changing circumstances. The agile audit approach entails the use of ICT, adopt a swift and more pragmatic audit approach and a move from traditional assurance audits to more of advisory role to management. It is important now more than ever, for internal auditors to stay technically up to date. This does not just mean that the IA function should use ICT tools to carry out its functions as it did in the past, rather, there is a need to rethink how they perform their functions in a more agile manner and how they can make the most of data and technology to deliver their functions safely, efficiently and effectively while creating value. The pandemic brought about difficult times which increased organizations risks, the IA role is enormous in ensuring that they provide adequate risk advisory services. The ultimate goal is for the IA function to think differently, work smarter and be futuristic.

Limitation

The major limitation of this study is in the population and sample size which is rather small and makes it difficult to generalize the findings. The exploratory nature of this research although provides useful insight to the subject of study and can direction future research, inhibits the research ability to reach definite conclusions.

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