

# The Conceptual Dilemma between Internal Control and Internal Audit in Egyptian Public Organizations

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## Abstract

*Purpose:* This paper aims at determining the extent of the conceptual dilemma between internal control (IC) and internal audit (IA). It seeks to highlight to what extent the managers, internal auditors and external auditors in, Egyptian public organizations, distinguish between IC and IA with respect to their concepts and function.

*Methodology:* This paper seeks to present a conceptual model based on both analytical descriptive approach and statistical analysis. The analytical descriptive approach is used for explaining the perspectives related to the subject of the paper; whereas the statistical analysis is used, through a questionnaire, as a tool to collect data then analyze them to determine whether there is a confusion between IC and IA.

*Findings:* The results revealed a confusion between IC and IA among the individuals participated in the experiment in the concepts and function which entailed the lack of clarity in defining the function of each. So, the study presents a theoretical framework that explains the concept and function of IC and IA in public organizations which contributes to defining the function and competencies of each.

*Originality/Value:* This study provides a new contribution in studying the relationship between IC and IA. It can be regarded as a theoretical foundation for researchers to conducting empirical and comparative studies in the future. The study affords directive mechanisms to policy makers in order to enhance control, accountability procedures to achieve the efficiency and effectiveness in the Egyptian public organizations.

**Keywords:** Internal Control, Internal Audit, The Conceptual Dilemma, Egyptian Public Organizations.

## Introduction

Public organizations seek continuous development and improving performance to achieve efficiency and effectiveness. This requires development in sound procedures to ensure control and accountability processes which will be applied through focusing on activating the function of IC and IA. The IA is an integral part of the internal control that confirms the validity of controls and provides reports on how to improve the effectiveness which is linked to the IC system (Allen et al., 2013). While another view pointed out that in most cases, IC and IA look the same, "both use audit techniques and analytical tools to evaluate the business environment." Even historically, both IC and IA have been developed and participated in audit despite their differences in terms of staffing level, degree of independence and responsibility, reporting methods in organizational structure and functional level (Bubilek, 2017). Besides, (Baltaci & Yilmaz, 2006) agreed with that view and confirmed IC and IA are profoundly close and commonly intertwined terms, which are often used interchangeably. However, there is another point of view that confirmed that there was confusion between IA and IC in some organiza-

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tions. The source of the confusion stems mainly from the fact that they both aim to add value and improve organization's operations (Hightower, 2008).

In Egypt, the study of (El-Tahhan, 2016) indicated that there was a relationship between IC and IA in Egyptian public organizations, so that the weakness in the performance of the IA function is attributed to the weakness of the IC system. Furthermore, there is a relationship between internal audit committee activities and internal control procedures where the higher performance of internal audit committee leads to improvement in internal control quality (ICQ); that is more pronounced when an organization was audited (Khlif & Samaha, 2016). On the other hand, the organization for Economic Cooperation and Development, (OECD, 2019) referred that the definition of Egyptian Financial Supervision Manual for IA is different from the definition of Institute of Internal Auditors (IIA) in concept, and that the definition seriously impede progress towards developing a good framework for IC besides making the concept of IC and IA not in line with international standards and practices. This is reflected in the understanding of these concepts.

The previous points of view clarified that the similarity, whether in the organization's operations of control and auditing, or in terms of achieving the goals, may have an impact on the formation of confusion or a conceptual dilemma for many employees. The authors found a scarcity of studies and research that dealt with this subject; this, in turn, indicates the existence of a research gap in exploring such dilemma. Moreover, the literature that dealt with the existence of a confusion between the two concepts did not provide a proposal or a theoretical contribution about solving this dilemma.

Therefore, this study attempts to explore the extent by which there is a conceptual dilemma between IC and IA in Egyptian public organizations and identify how the managers, internal auditors and external auditors perceive the concepts of IC and IA. This will be done through reviewing the literature and conducting a questionnaire to present a guiding framework as a kind of theoretical contribution which would help in filling the theoretical gap in the current literature.

## **Research Methodology**

In this study, the adopted research methodology is based on:

### ***Qualitative Approach.***

Analytical descriptive approach to analyze the theoretical structure of both IC and IA in order to achieve the target of the study. The authors made a comprehensive review of literature using secondary data represented in academic articles, periodicals, books, reports and online resources. Beside, the study will suggest a theoretical framework that helps Egyptian public organizations employees to know the difference between the concepts IC and IA and to determine the function of each.

### ***Quantitative Approach***

Questionnaire to examine the confusion between IC and IA and their functions among managers, internal auditors and external auditors.

## **Objectives of the Study**

The study seeks to achieve many goals such as:

- Clarifying the conceptual dilemma between IC and IA.
- Determining the relationship between IC and IA in Egyptian public organizations.
- Providing a set of recommendations to policy makers in Egyptian public organizations which helps in clarifying the lines of accountability and control to avoid confusing between IC and IA.

## Hypotheses

Based on the theoretical framework, the research hypotheses are identified as follows:

- H1: Public organization's employees (managers, internal auditors and external auditors) understand the concept of IA, role and function.
- H2: Public organization's employees (managers, internal auditors and external auditors) are aware of the concept of IC, role and function.
- H3: Public organization's employees (managers, internal auditors and external auditors) are aware of the difference between the concept and function of both IC and IA.

## Literature Review

Based on the goals that the study intends to cover, the literature will be reviewed parallel to those goals. Therefore, the study will seek to review the literature that shows the extent of the conceptual dilemma or confusion between the concepts of IC and IA in general. The study also seeks to review the literature that shows the extent to which managers, internal auditors and external auditors in Egyptian public organizations perceive each of the concepts and functions of IC and IA.

### *The Conceptual Dilemma between IC and IA*

The study of (Hightower, 2008) referred to a confusion between IC and IA, especially in some organizations. The reason for this confusion may be due to the similarity of the tools and methods of each of them in improving operations and activities which helps in adding value to the organization.

The study of (Jurchescu & Frumușanu, 2010) agreed with the previous study and added that IA should not be confused with IC as the latter reflects the periodic review of the activities and procedures of the organization. Thence, it represents all forms of control in the organization. As for IA, it represents a part of IC which emphasizes the accuracy of the IC system and thus achieve goals efficiently. In addition, the study of (Baltaci & Yilmaz, 2006) agreed with the previous studies that the concepts of IC and IA are very similar. So, they are often used interchangeably despite the presence of functional and operational differences between them. IC expresses the activities and procedures established while the IA is responsible for examining them. There is another difference in terms of the objective. IC is concerned with setting up systems and prior assurances to reduce risks, whereas the objective of IA is the confirmation and subsequent review. Furthermore, IA operates independently and is not affiliated with the organizational structure of the organization. From a functional point of view, IA is viewed as an integral part of IC system. It is considered as the last step before the external audit.

(Suciu, 2008) adopted another viewpoint on the similarity between the concepts of IC and IA due to the fact that both are components of the forms of control established at the level of the organization with the aim of achieving efficiency and effectiveness. Another similarity is that both are responsible for the functions of the organization such as financial, accounting, human resources, information technology and quality management.

But, (Bubilek, 2017) study emphasized that IA is carried out through organizational units that perform its function while IC is a system which consist of rules and procedures. So, this is what represents the essential difference between them which is also confirmed through a case study of Finnish public company (KONE). The result showed that the management and employees must differentiate between the concept of IC and IA in order to perform the work correctly as it ensures the correct and useful perception of concepts by achieving better results among employees. Therefore, the study conducted by the (PIFC Expert Group, 2004) showed that one of the most important conditions for joining the European Union is the commitment to apply IA standards, which enclosed a lot of ambiguity for many of the candidate countries. In other words, there is confusion between the concept of IC, IA and financial control due to the lack of understanding the

function for IA in these countries at the beginning. As a result, the candidate countries have begun seeking to shift towards the introduction of IA and the use of the term IC to express all forms of control that are practiced at the level of public organizations and considering IA as part of IC that seeks to ensure compliance with regulations to achieve transparency, efficiency and effectiveness in the public organization.

### ***Second Group: The Relationship between IA and IC in Egypt***

The study of (Khlif & Samaha, 2016) assessed the relationship between the quality of audit committee activities and internal control quality (ICQ). The researchers held a questionnaire based on a sample comprises of 86 of the most actively traded companies listed on the Egyptian Stock Exchange over the period 2007-2010. The findings revealed that there was a significant positive relationship between the quality of audit committee activities and ICQ. However, (El-Tahan, 2016) indicated many weaknesses in the Egyptian public organizations due to weaknesses in both the IA and the IC system. As a result, there is no effective accountability for violations and cases of corruption. Such weaknesses of administrative skills of employees in public organizations created an unsuitable environment for the development of both IA or IC system. While the study of (OECD, 2019: 31) have indicated that there is confusion in the concept of IA and IC at the local and regional levels in Middle East and North African countries. This was indicated by the definition of the Egyptian Financial Supervisory Authority for IA "it is subject to the authority of the administrative as part of the positions held by the employees of the accounting unit, and whoever occupies this position must verify the correct completion of the documents and work to review them before submitting them to the financial observer, and the position occupants must be subject to technical and administrative supervision by a representative of the Ministry of Finance". Therefore, the study clarified, through this definition, that the issue is not just a linguistic issue. If these key concepts and tasks are not properly understood and applied, it may become very difficult to devise effective reform policies.

In light of previous studies, the authors believe that there are some points that need to be clarified:

- There is a dearth of studies that investigate the extent to which there is a conceptual dilemma between IC and IA; in addition, there is severe scarcity of Egyptian studies in particular.
- The studies that dealt with this phenomenon mostly agree on the existence of confusion or dilemma, whether conceptual or operational, between both IC and IA.
- Studies indicated that the conceptual dilemma did not only have implications for the terminological or linguistic definition as far as it is reflected in the understanding of the role and function of each; the correct awareness of the concepts contributes to the proper practice of employees.
- Despite the clarification of many studies of the functional differences between both of them and the agreement that the IA is part of IC, studies did not provide practical suggestions or a clear guiding model to solve this dilemma.

Therefore, this study attempts to bridge the research gap in the previous literature, especially in the Egyptian public organization, by contributing to the proposal of a guiding model which explains the relationship between IC and IA in the organization as well as the function and role of each of them, which is reflected in the correct awareness of the concepts and the proper practice of employees.

## **Theoretical Framework of the Study**

### ***Definitions of Internal Control***

Some scholars have defined internal control as a function that ensures that activities provide the required results and its relation to setting the goal of measuring performance and taking corrective action. Thus, it is related to the work of all administrative levels (Awad Allah & Abdel-Razek, 1994: 30).

It was also defined as verifying what is being achieved or what has been achieved is actually in conformity with what is decided in the approved plan, with regard to objectives or policies, procedures and regulations, budgets, work programs and timetables (Al-Hawari, 1996: 381).

Internal control can be defined as the organization, policies and procedures used to help ensure that government programs achieve their intended results, and that the resources used to deliver these programs are consistent to the stated aims and objectives of the organizations concerned. Such programs are protected against waste, fraud and mismanagement, and that reliable and timely information is obtained, maintained, reported and used for decision-making (INTOSAI, 2001: 6).

The Committee of Sponsoring Organizations of the Treadway Commission has defined IC as a process carried out by the entity's board of directors, management and other employees and is designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance (COSO, 2013:3).

From the authors' perspective, IC should be comprehensive for all aspects of the organization's activity. IC is not a department within the organization. Therefore, it can be defined as a system which seeks achievement of the organization's goals, through following the established policies and plans, tries to discover deviations and works to correct them through continuous follow-up of operations and activities.

### ***Definition of Internal Audit***

Internal audit has been defined by many experts and academics in addition to many international organizations. For instance, the French Institute for Auditing and Internal Control (IFACI, 2021) defined it on its official website as an independent and objective activity aimed at giving guarantees to the institution about the degree of its control over the operations it carries out while providing advice related to that and help creating added value.

Besides, (OECD) identified IA and function of auditors as "internal auditors play an important role in holding government sector officials accountable by providing independent and objective assessments of whether public resources are being managed effectively to achieve the desired results". These evaluations also provide decision-makers with an unbiased perspective on the performance of programs and policies as well as the emerging risks, which helps in improving operations. The focus of the internal audit on achieving transparency and accuracy of reporting encourages ethical behavior by government sector officials, which can increase citizens' confidence in the results reported.

While the Saudi Organization for Certified Public Accountants defined internal audit as "an independent and objective evaluation function that is established within the organization to examine and evaluate its various activities with the aim of assisting officials within the organization in carrying out their responsibilities with a high degree of efficiency and effectiveness by providing analysis, evaluation, advice, recommendations and information related to controlling the activities that are examined. The internal audit helps the organization achieve its objectives, protect its assets and adds value by applying a structured approach to evaluate and improve the effectiveness of risk management, control and governance in the organization (Guidance Manual, 2010: 13).

But, the Institute of Internal Auditors (IIA) developed a definition of internal auditing in 1999 "Internal auditing is 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" (Anderson et al., 2010: 1).

Hence, the authors associated themselves with the definition of IIA as it is fully comprehensive in the definition of IA that states the fundamental purpose, nature and scope.

## **Function of IC , IA and Relationship in Public Organizations**

### ***Function of IC System***

Internal Control most important objectives is to clarify the authorities, powers and responsibilities in order to define and evaluate the levels of implementation in the various departments of the organization as well as to protect the organization from embezzlement and manipulation. It is also considered one of the most important objectives of the IC systems to protect the assets of the organization which enables the organization to survive and preserve its assets from all possible risks and likewise push its productive wheel by contributing the existing assets to enable it to achieve the set goals (Lathan, 2016). The IC system consists of five integrated components as follows:

#### **1- Control Environment:**

The control environment determines the method of the establishment . It is considered the basis for all other internal control components as it provides discipline and accountability. So, the following elements of the control environment must be evident (INTOSAI, 2004a):

#### **2- Risk Assessment:**

It is a process intended to first identify the potential risks related to achieving the enterprise's objectives, analyze them and define how to adequately confront them; it includes identifying the risks , evaluating the risks in terms of (importance, recurrence), assessing the likelihood that the organization will be exposed to risks and finally developing of solution to face risks (INTOSAI, 2007).

#### **3- Control Activities:**

Control activities are policies and procedures established to face risks and to achieve the objectives of the enterprise. In order for control activities to be effective, they must be appropriate and have consistent competencies according to periodic planning processes, so that they are at the same time low-cost, comprehensive and integrated with the objectives of the enterprise in general. Control activities also practiced on all departments of the organization at various levels and in all specializations (INTOSAI, 2004a).

#### **4- Information and Reporting**

Information and reporting are essential means to achieve the objectives of IC as the information must be: closely related to the subject, specific, well-known and communicated in the appropriate manner and time to perform employees' responsibilities . Therefore, a full documentation of the IC system must be conducted, especially for all important transactions and events.

The reporting process is represented in the form of reports that include information related to the operational, financial, administrative aspects and should determine the extent of compliance of laws. It also enables management to monitor operations to help manager take appropriate decisions (COSO, 2013).

#### **5- Monitoring**

It is necessary to monitor and follow up the IC systems to assess the quality of their performance. This monitoring can be done through continuous monitoring and separate evaluations or a combination of both (INTOSAI, 2004a).

### ***Function of IA***

In 1941, the Institute of Internal Auditors (IIA) was established in the United States of America, where the institute adopted the idea of the emergence of the science of IA as an independent branch of the field of

auditing, and it became a science for its professional regulations; its various guiding standards and the rules and procedures governing it (Hassanein, 2017).

IIA also identified standards for the professional practice. Its purpose is to provide a frame of reference for achieving value aiming at improving the organization's operations. The standards consist of two main parts (characteristics and performance). Characteristics standards express the requirements that must be met in organization and individuals while performance standards focus on the nature of IA such as quality standards used to measure the performance of services. There are additional standards known as implementation standards explaining how to apply characteristics and performance standards by providing binding guidance on Assurance services that contribute to the objective evaluation of evidence. The standards have been numbered so that each number is defined by a specific function. The criteria for the characteristics are numbered from 1000 to 1322 while the performance standards numbered from 2000 to 2600 and is concerned with how to plan for the IA department define policies, procedures and evaluate governance, risk management and control processes as well as the contribution to improve them (IIA, 2016a).

Therefore, the activity of IIA is considered insightful, proactive and future-focused. Internal auditors assess areas such as finance, performance and compliance as well as perform advisory services to fulfill these roles (IIA, 2019).

However, the implementation of IA in public organizations is not an easy project; public organizations are distinguished by some basic characteristics and values that distinguish them and differ from the private sector, including the bureaucracy problems. Moreover, public organizations faced great obstacles that clash with their structure; its objectives is to contribute in preventing the effective implementation of a successful control (Drogalas et al, 2020).

Thus, the Internal Audit function (IAF) is related to the verification, assurance and evaluation of three important elements: governance, risk management and internal control.

### **1- Governance**

The IAF often serves parties integrally involved in governance processes, such as the council of directors, audit committee, external auditor and senior management. As a result, IAFs often serve those primarily responsible for governance . This unique relationship raises interest in the important role the IAF plays in adding value to governance processes. Furthermore, many activities performed by IAFs can be incorporated into an organization's control structure (Joksimović & Ahmed, 2017).

This is besides emphasizing the importance of the role of internal audit in activating the governance system, what happened during the global economic crisis in 1998. As a result, shareholders and stakeholders accused the internal auditors of failing to perform their role; this led to a crisis of confidence in the role of the auditor (Othman, 2012).

### **2- Risk Management**

One of the important roles of internal state auditors in the framework of risk compliance is to provide information to management about the areas of risk where measures need to be taken regarding their relative priority . In this case, the grouping of risks should contain a limited number of groups, for example: very high, high, medium, low risks. Internal auditors should refrain from assuming managerial responsibilities; that is to say, from actual risk management. This is because the internal auditor is not responsible for the measures taken by managers to ensure the establishment and operation of the IC system as well as the development and implementation of control measures to influence risks. Such activities are carried out by the manager and those responsible for the activities, regardless the audit activities (Momot et al., 2021).

### 3- Internal Control

IA is a profession and activity involved in advising organizations regarding how to better achieve their objectives through managing risks and improving internal control. IA involves the utilization of a systematic methodology for analyzing business processes or organisational problems and recommending solutions. The scope of IA within an organization is broad and may include various internal control related activities such as the review of the effectiveness and efficiency of operations, the reliability of financial reporting, investigation fraud, risk assessment, safeguarding of assets and compliance with laws and regulations. Internal audit activities, therefore, provide assurance on the effectiveness of public sector entities, internal control environment and may identify opportunities for performance improvement (Asare, 2009).

#### *The Relationship between IC and IA in Public Organizations*

In practical application has proven that there is a problem in the perception of managers in some organizations of IA and IC. Senior management in many US public organizations has assigned the IA Unit the primary responsibility for risk management and governance in existing and new areas. On the basis that it is the best choice due to the experience of the audit team. This is after Sarbanes-Oxley legislation became required in these organizations. This resulted in ignoring the limits of the IA function and the confusion in the roles and functions between IA and IC, especially with the absence of guarantees and controls that confirm not to prejudice the independence and objectivity of the internal auditor with regard to providing advice or assistance as part of his advisory role in risk management (IIA, 2016b).

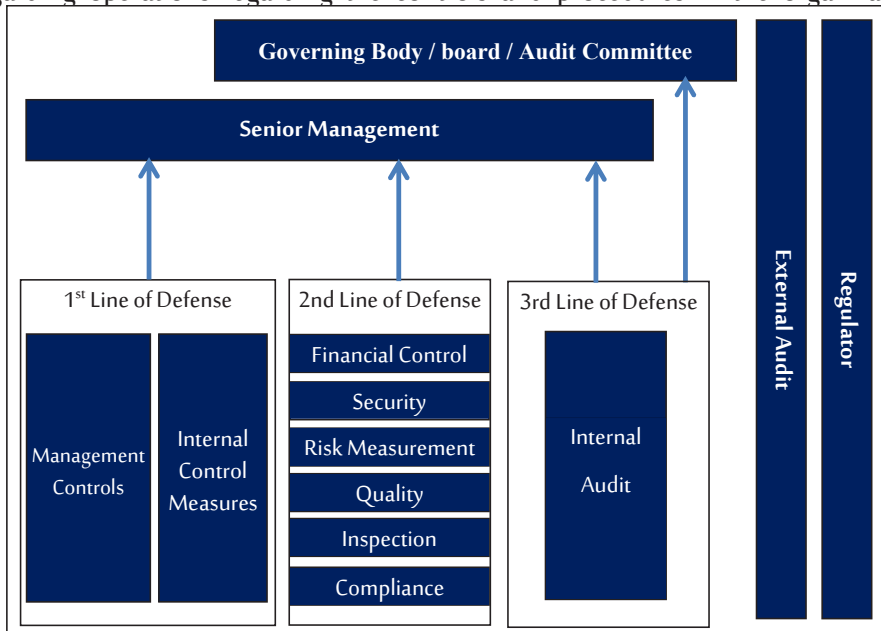
Therefore, a large debate, whether at the level of literature or in practice, about the causes of confusion (whether they are related to the similarity of the concept or function or related to the perception and practice of managers of the concept and function of each of them). This, in turn, called many professional organizations to clarify: the nature of the work, the function of both IA and IC and the relationship between them in public organizations as follows:

The (INTOSAI Guidelines, 2004b) has emphasized the relationship between IC and IA in the government sector through guidelines which recommended the necessity of establishing an IA department or unit as part of the organization's IC system whose role is to monitor the effectiveness and performance of IC through internal auditors who provide information about evaluating the performance and functioning of the internal control system and to submit reports on strengths, weaknesses and recommendations for improvement while ensuring the independence of the IA department and ensuring its objectivity. The guide also made clear that the internal auditor would not be a substitute for a strong IC system.

Furhermore, the International Standards for the Professional Practice of IA issued by the (IIA, 2016a) emphasized the relationship between IC and IA has stipulated the necessity for an independent IA unit or department based on the continuous improvement of the IC system through standard no. 2130, which referred to "The internal revision of the organization in maintaining effective controls by evaluating their effectiveness and adequacy and pushing for their continuous improvement." While standard no. 2130. A1 emphasized, "the IA activity must evaluate the appropriateness of the efficiency and effectiveness of controls in dealing with the organization's risks related to governance, operational processes and information systems". Standard no. (2130. C1) emphasized, "The internal auditor must use his knowledge of controls acquired through performing consulting tasks when evaluating the organization's control processes".

So, the (IIA, 2016b) presented a model representing the IC system in the organization consisting of three lines of defense and considered the third line as representing the function of the internal audit department in the organization. This form clarified the responsibilities and powers of each line of defense as follows (as shown in Figure 1):

- The first line of defense expresses the responsibility of management in the first place for monitoring and evaluating all activities of the organization besides following up its activities. It is considered the main line of defense in managing the risks to which the organization is exposed.
- The second line of defense consists of specific functions represented in risk management, financial control, inspection and compliance. Security and quality ensure and confirm that the procedures and controls in the first line of defense are properly designed and operate effectively. The nature and types of these jobs depend on many factors including industrial development and organizational maturity.
- The third line of defense is the internal audit function; it provides an independent assurance regarding operations regarding the controls and procedures in the organization.



Source: IIA , Practice Guide / Internal Audit and the Second Line of Defense,2016,p7.

**Figure 1: The Three Lines of Defense Model**

## Methods of Statistical Analysis

Computer and Statistical Group for the Social Sciences (SPSS.V.25, EXCEL 2010) will be used as follows:

- Calculating the internal consistency factor and the Fakronbach coefficient for all the study variables in order to know the validity and reliability of the study tool (the questionnaire).
- Calculating the descriptive statistics (the mean and standard deviation of all study variables).
- Using (ANOVA) test for calculating the extent of the existence of statistically significant differences between the study sample and the clarity of the concept of both IC and IA as well as the difference between them in making an indicator of the IC and IA indicators as a dependent variable in order to test the validity of the hypotheses.

## Research Population and Sample Type

The research community represents internal auditors and directors of government institutions as well as external auditors. In view of the difficulty and inability to use the comprehensive inventory method in collecting samples for the current study (due to considerations of time, effort and cost, in addition to

the recent emergence of internal audit units and the small number of internal auditors in Egyptian public organizations), a simple random sample was selected from the study population.

70 questionnaires were distributed to the target groups of the study, where 50 forms were retrieved while 8 forms were found invalid for examination and 12 forms were not returned. Accordingly, the forms were processed for 20 managers, 10 internal auditors and 20 external auditors.

### ***Internal Consistency Validity***

It is defined as the internal consistency of the questionnaire phrases. It measures the consistency of all the questionnaire paragraphs with the criterion to which the phrase belongs, so that it measures what it has been put to measure and does not measure anything else. Therefore, we calculated the correlation coefficient between the degree of each phrase, the terms of the criterion and the total degree of the criterion to which this paragraph belongs.

### ***The First Criterion: Internal Audit***

In table I, it is clear that all the paragraphs are related to the first hypothesis; the extent of clarity of the concept of IA within public organizations for internal auditor, managers and external auditor, the correlation coefficient ranges between 0.602 and 0.678 and is accurate at a significant level  $\alpha = 0.01$ . All paragraphs of the first criterion are considered and internally consistent with what they were designed to measure. Besides, it is clear from the descriptive statistics that the arithmetic mean of the sample responses with agreement was 4.38, and the total score of the study sample's trends towards questions related to IA was (87.82%). This indicates a large percentage of clarity and understanding on the part of the respondents towards questions related to the concept of IA and its function.

***Table I: The First Criterion, Internal Audit***

Question	Coefficient	Mean	Standard Deviation	%
1- The internal audit is concerned with setting the controls and procedures regulating the work of the various departments of the organization.	0.651	4.15	0.36	83.09
2- The internal audit has a preventive role in the potential problems and risks.	0.675	4.57	0.54	91.47
3- The internal audit is responsible for developing risk plans and procedures.	0.602	4.31	0.46	86.18
4- The sampling system must be used in the internal audit process	0.628	4.00	0.49	80.32
5- The comprehensive examination system must be implemented in the internal audit process.	0.665	4.70	0.46	94.02
6- Internal audit reports are advisory reports.	0.654	4.09	0.29	81.85
7- The internal audit unit submits periodic reports to the Administrative Control Authority on the results of the organization's work.	0.634	4.39	0.49	87.83
8- The internal audit submits its reports to the competent authority and informs the senior management of recommendations and proposals	0.618	4.41	0.49	88.24
9- It includes internal audit procedures for financial review during and after disbursement only.	0.615	4.37	0.48	87.49
10- The internal audit focuses mainly on the accounting audit.	0.659	4.52	0.50	90.30
11- An internal audit unit should be created to replace the Financial and Administrative Inspection Unit.	0.645	4.51	0.50	90.10
12- The internal audit unit is considered within the organizational structure, but it is an independent unit that reports directly to the competent authority.	0.678	4.51	0.54	90.24
<b>Total Degree of Internal Audit</b>		<b>4.38</b>	<b>0.46</b>	<b>87.82</b>

### ***The Second Criterion: Internal Control***

It is clear in table II that all the paragraphs which is related to the second hypothesis is clear regarding the concept of IC for internal auditor, managers and external auditor within public organizations. The correlation coefficient ranges between 0.601 and 0.890 and is accurate at a significant level  $\alpha = 0.01$ . All

paragraphs of the second criterion are considered and internally consistent with what they were designed to measure. But, it is clear from the descriptive statistics that the arithmetic mean of the sample responses with agreement was 3.68. The total score of the study sample's trends towards questions related to internal control was (73.61%), and this indicates a lower percentage of respondents towards this criterion.

**Table II: The Second Criterion, Internal Control**

Question	Coefficient	Mean	Standard Deviation	%
1- Internal control is part of the internal audit.	0.676	3.63	1.02	72.59
2- The organization should create an internal control unit.	0.601	3.17	.748	63.35
3- Internal control focuses on verifying and ensuring the correctness and integrity of financial transactions and the accurate implementation of administrative procedures.	0.618	4.12	.878	82.35
4- Internal control focuses on providing reports on the situation of departments in the organization.	0.890	3.37	.934	67.47
5- Internal control is a system established by senior management to ensure the implementation of the controls and procedures that govern workflow.	0.708	4.01	.907	80.17
6- The internal control function is financial, management and compliance review.	0.768	3.96	.682	79.29
7- The internal control system confirms the correctness of the controls and procedures applied by the different departments of the organization.	0.619	3.50	1.08	70.05
<b>Total Degree of Internal Control</b>		<b>3.68</b>	<b>0.600</b>	<b>73.61</b>

### ***The Third Criterion: If There is Confusion between Concepts of IA and IC***

It is clear from table III that all the paragraphs relate to the third hypothesis, which expresses the clarity of the paragraphs that ask about the difference between the concepts of internal control and internal audit. The correlation coefficient ranges between 0.626 and 0.732 and is accurate at a significant level  $\alpha = 0.01$ . All paragraphs of the second criterion are considered and internally consistent with what they were designed to measure. But, it is clear from the descriptive statistics that the arithmetic mean of the sample responses with agreement was 3.57. The total score of the study sample's trends towards questions related to confusion between IA and IC was (71.48%), and this indicates the low awareness of the respondents of the difference between the two concepts.

**Table III: The Third Criterion, Confusion between Concepts of IA and IC**

Question	Coefficient	Mean	Standard Deviation	%
1- The concept of internal audit is identical to the concept of internal control.	0.721	3.41	0.903	68.18
2- The top management determines the responsibilities and tasks of the internal audit unit.	0.715	3.32	0.883	66.47
3- The top management is responsible for determining the internal control tasks.	0.626	3.98	0.825	79.59
4- Internal control is responsible for identifying and assessing the risks of the organization.	0.658	3.55	0.869	71.23
5- The internal audit is responsible for identifying and assessing the risks of the organization.	0.679	3.36	0.956	67.12
6- The follow-up and control of the financial department is among the tasks of internal control.	0.732	3.78	1.013	75.65
7- The follow-up and control of the financial department is among the tasks of internal audit.	0.718	3.62	0.925	72.35
<b>Total Degree between the Concept of Internal Audit and Internal Control</b>		<b>3.57</b>	<b>0.578</b>	<b>71.48</b>

### ***Using ANOVA Test to Clarify the Extent to which Managers, Internal Auditor and External Auditors Understand the Concept of the Function of IA.***

Table IV shows that there are statistically significant differences between the functional level and the concept of auditing because the value of the significance level  $0.001 < 0.05$ . This is considered a positive indicator as it shows the sample members' understanding the concept of IA.

**Table IV: ANOVA Test for the Concept of the Role and Function of IA**

Source	Sum of squares	df	Mean square	F	Sig
Between Groups	1956.22	2	978.1		
Within Groups	4294.1	47	91.36	10.70	0.001
<b>Total</b>	<b>6250.3</b>	<b>49</b>			

### ***Using ANOVA Test to Clarify the Extent to which Managers, Internal Auditor and External Auditors Understand the Concept of the Function of IC.***

It is obvious in table V that there is no statistically significant differences between the job level and the concept of internal control because the value of the moral level  $0.250 > 0.05$ , and this is considered a negative indicator as it becomes clear that there is a misunderstanding (lack of clarity) of the concept of internal control among managers, internal auditors and external auditors.

**Table V: ANOVA Test the Concept of the Role and Function of IC**

Source	Sum of squares	df	Mean square	F	Sig
Between Groups	27 3.73	2	136.86		
Within Groups	4371.77	47	93.01	1.47	0.250
Total	4645.5	49			

### ***Using ANOVA Test to Clarify the Extent to which Managers, Internal Auditor and External Auditors Understand the Differences between Concept and Function of IA and IC.***

From the previous of table VI, there is no statistically significant differences between the functional level and the confusion between the concept of IA and the concept of IC. Since, the value of the level of significance is  $0.382 > 0.05$ , and this is considered a negative indicator as it becomes clear that there is a confusion (lack of clarity of the difference) between the two concepts for managers, internal auditors and external auditors.

**Table VI: ANOVA Test for the Confusion between the Two Concepts IA and IC**

Source	Sum of squares	df	Mean square	F	Sig
Between Groups	124.05	2	62.02		
Within Groups	4645.50	47	98.84	0.63	0.382
Total	4769.55	49			

## **Limitations**

There were many difficulties that the researchers have faced while conducting the study as following:

- 1- One of the most difficulties was the scarcity of literature that deals with this issue, especially in Egyptian public organizations, in which the researchers did not infer references to this particular problem.
- 2- The difficulty in communicating with any of the internal auditors or inferring the existence of internal audit departments in Egyptian public organizations. This is due to the recent decisions related to the establishment of internal audit units as in the Prime Minister's Resolution No. 1146 of 2018 establishing 6 new organizational departments in public organizations, including IA departments. This was followed by Resolution No. 35 of 2019 by the head of the Central Agency for Organization and Administration to describe the jobs, including the description of the internal auditor's job and then Resolution No. 54 of 2020 to establish new organizational departments for internal auditing and governance in public organizations. So, the questionnaire was distributed to the internal audit unit in Ministry of Finance.

## **Results**

- 1- There is a lack of understanding of IC system, and that it is an internal system upon which the organization's management is based and through which it seeks to ensure the correctness of the organization's controls and procedures among all members of the sample (managers, internal auditors and external auditors).
- 2- There is confusion in the perception of the difference between the concepts of IA and IC. In addition to that, there is lack of knowledge regarding the relationship between IA and IC system among members of the sample (managers, internal auditors or external auditors). They are exposed to the technical differences between the two concepts and the function of each.
- 3- The results showed comprehension and clarity in the concept of IA among the sample members, especially internal auditors.

After foregoing reference to the literature and confirming the existence of a scarcity of references (that dealt with the relationship between the two concepts and the function of both IA and IC in addition to the results of the case study in the Egyptian public organizations), researchers suggest a guiding model to clarify the function and role of both IA and IC within the work system of public organizations (Figure 2). The guide framework focuses on how to clarify the function and concept of both internal audit and internal control for all employees of the organization, whether managers, employees, internal auditors or related external dealers such as external auditors.

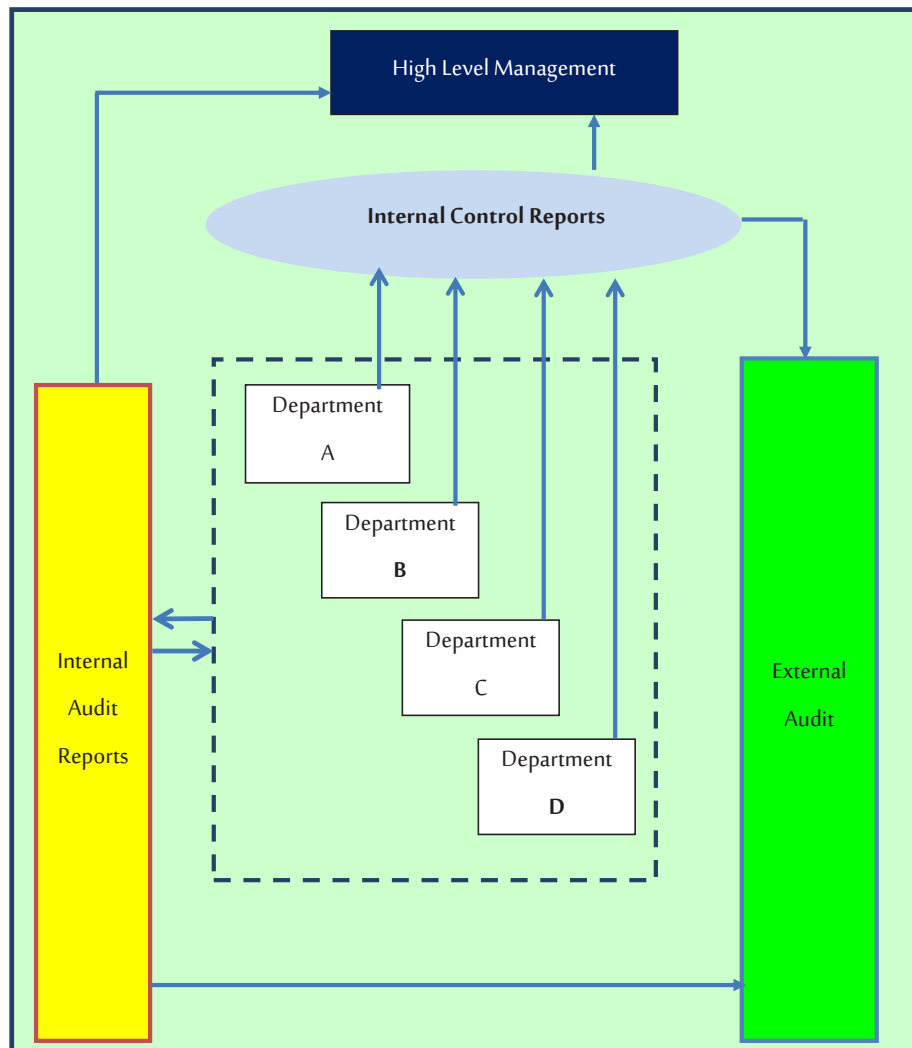


Figure 2: Function of IA , IC and the Development of IA and IC Reports in the Organization Construct

## Findings, Recommendations and Future Research Agenda

### Findings

The results indicated that there is a dilemma and confusion between both IA and IC; this is related to the concept and function of each of them as well as highlighting the similarities and differences between them.

Besides, authors believe that the reason for this dilemma, especially in Egyptian public organizations, is the novel knowledge of the concept and function of IA. As Resolution No. 54 was issued to establish internal audit departments in Egyptian public organizations in 2020, So the employees did not practice the in-

ternal audit function before and did not know its role or objectives. Thus, the pre-mentioned aspect reflected on the respondents' understanding that IC and IA are two terms for one concept. Therefore, the results indicated the importance of the field of study in correcting the practice of both IA and IC. This would lead to focus on the necessity to clarify that problem, especially in light of the possibility of the current study which adds a new model to activate the IC system in a way that clarifies a cycle within the institutional system. In addition, it is important to clarify the role of internal audit units and their relationship to the IC system and external regulators (external auditors), the guiding model shows that:

- 1- All the organization units must feedback IC system through periodic reports to the managers on the implementation of rules and procedure, so that managers ensure the accuracy and integrity of the system. Thus, IC reports will clarify its concept and function, whether for managers, internal auditors and even employees of the organization.
- 2- On the other hand, the IA unit is responsible for reviewing, emphasizing the accuracy of the work of the organization's units as a whole, including IC system, and making periodic reports on the results of its review to senior management managers. In addition, its reports are considered among the important documents that external control auditors can refer to in facilitating their mission and their work. This affects the clarity of the concept and function of internal audit, whether for managers, employees of the organization or external auditors.
- 3- The objective of the guide framework is to assist senior managers in the process of taking decisions, and it also contributes to clarify the difference between the function of the IC system and the IA unit. This is because there are two types of reports that will be submitted to the higher management: reports of the units in the organization on the results of the IC system and the reports of the IA unit. In the event of agreement (of its views on the correctness and accuracy of the situation in the organization and thus taking correct decisions while in the event of disagreement), there are some evidences regarding shortcomings and failures in the application of the IC system or in the work of the IA unit. Thus, searching for causes and problems and then developing solutions is essential. Eventually, the practical practice of senior management will contribute to identify the difference between the concepts and function of both IA and IC.

### ***Practical, Theoretical and Social Implications***

This study has a number of implications for public employees, researchers and society as a whole.

A practical note: it is expected that clarification of the concept of IC and IA will clarify the lines of control, accountability, the limits of the role of the internal auditor and managers and the impact of these aspects on the follow-up and control processes.

Theoretically, in the future, the new conceptualization of framework model will help employees and managers in the public organization to define the role and mission of the internal audit units and the limits of their work within the internal control system.

Finally, the results of the study do have a significant influence on the society, where it consolidates many values as accountability, controlling, governance in public organizations. So, it is relevant to the sense of public satisfaction and confidence towards the government policies. As for the governments, they will be able to account and control its organizations.

### ***Recommendations***

Through the findings of the questionnaire, the authors believe that the IC and IA can be successfully developed in Egyptian public organizations if the proper considerations are made. Hence, we provide some recommendations as a valuable input to the Policy-makers and executive managers:

- First, the necessity of activating the indicative guide for the establishment of internal audit units. In addition to the development of manuals: with the aim of clarifying and removing any possible confusion of the concept and function of IC and IA when practicing for employees of public organizations.
- Second, promoting continuous training, seminars and conferences for managers, internal auditors and external auditors while focusing on clarifying the concept and function of IC and IA to employees across the organization.
- Third, applying international standards which is related to IC and IA, especially COSO framework, INTOSAI guidelines and IIA standards for good practices.
- As we mentioned earlier, the lack of studies, which shows the extent to which there is a conceptual dilemma between both IA and IC, drew attention through this study to the need to conduct more studies (especially case studies in public organizations) to confirm the accuracy and validity of the application of IA standards in the new organizational units not to mix it with other concepts (especially the concept of IC).

### ***Future Research Agenda***

Authors recommend some aspects related to the study topic that may help researchers in the future:

- Focusing on conducting case studies and comparative studies in public organizations to measure the correct understanding to the concepts and the function of both IC and IA.
- Developing guiding models commensurate with organizational developments in public organizations, especially in the field of accountability, follow-up and control.

### **Notes**

- IA: Internal Audit
- IC: Internal Control
- IAF: Internal Audit Function

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