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### Factors Affecting Internal Audit Reporting on Public Sector in Sri Lanka

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**Abstract:** The main purpose of this study is to identify significant factors affecting the effectiveness of internal audit reporting in public sector in the Northern Province, Sri Lanka. This study used the primary data collected from the heads of departments, divisions, and internal auditors in public sector in the Northern Province of Sri Lanka through the developed questionnaire. The regression analysis confirmed that the tested factors significantly affected the effectiveness of internal audit reporting, especially accountability and transparency, while internal auditor independence more significantly affected the effectiveness of internal audit reporting. All tested factors were significantly correlated with the effectiveness of internal audit reporting, except materiality. This study was based on the data collected from public sector in the Northern Province of Sri Lanka, therefore the findings of this study could be generalized to the other public sector organizations in the other provinces of Sri Lanka. According to the statistical results, it is suggested that the more the internal auditor independence of as well as internal auditor accountability and transparency, the more the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka. This is the first study evaluating significant factors affecting the effectiveness of internal audit reporting in public sector in Sri Lanka.

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## INTRODUCTION

Internal audit is an independent and essential activity in risk assessment and implementation of internal control system of an organization. Internal audit focuses on three key functions: ensuring the effectiveness and efficiency of operations, increasing the reliability of financial information and increasing & confirming the legal compliance of an organization. Internal audit covers not only financial but also non-financial activities of an organization. Due to the Asian financial crises, there were significant changes in internal audit profession during 1997 – 1998 (Amanuddin and Divyaa, 2014). Nowadays, internal audit functions are considered vital in all sectors, due to the latest global economic meltdown and increasing fraud cases. Therefore, every organization gives more considerations and priorities to have effective and efficient internal audit division. It vitally contributes in the risk management and effective day to day operations of an organization.

Most organizations have the audit committee for better performance and to figure out the possible solutions to the weaknesses of an organization. The Institute of Internal Auditors (IIA) (2020) defines internal auditing as a value adding activity in a firm to increase the effectiveness and efficiencies of daily

operation, improve the reliability of financial reporting, and ensure the legal compliance of a firm. Every organization has many objectives to achieve with some conditions. Therefore, internal audit functions help an organization accomplish its objectives by bringing a systematic and discipline approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Sri Lanka has faced a continuous budget deficit up to 6.8 % in its GDP in 2019 ([Central Bank Report of Sri Lanka, 2019](#)). Many public sector organizations have also faced difficulties on public sector financial management, so that they tried to find appropriate ways to develop the effective and efficient public sector financial management. Most central government public sector organizations have independent internal audit division under the chief internal auditor as well as each provincial council headed by the chief internal auditor to reach three primary objectives: ensuring the effectiveness and efficiency operations, ensuring and increasing the reliability of financial information, as well as ensuring and increasing the legal compliance of an organization. General treasury has the responsibility to all financial managements of a country with its financial management system. Thus, General treasury gives more consideration to the internal audit on public sector. However, we can see many weaknesses of internal audit practices through the committee on public accounts and public enterprises reports. Thus, there are mandatory reform and needs for effective and efficient internal audit system and its practices in public sector in Sri Lanka.

Previous studies found some factors significantly affected the effective operations of internal audit division. Management support, staff experience, adequate resource, and independence of the internal audit division significantly affected the effectiveness of internal audit ([Alzeban, 2014](#)). The independence of internal auditor significantly affected the performance of internal audit ([Drogalas, Karagiorgos and Arampatniz, 2015](#)). Internal audit independence, internal audit competencies, management support, and quality of internal audit significantly affected the internal audit effectiveness in Vietnam ([Tran, 2018](#)). Most studies conducted in Sri Lanka ([Dissanayake, 2015](#); [Hasini and Sithumini, 2019](#); [Gamage and Keving, 2018](#); and [Kumari and Weerasooriya, 2019](#)) were related to internal audit function, internal control system with firm performance. The Researcher believes that this study will fulfil a considerable level of the existing research gap related to the effectiveness of internal audit in public sector in Sri Lanka.

### **Research Questions**

Many researchers have assessed and found some factors significantly affecting the effectiveness of internal audit ([Alzeban, 2014](#); [Drogalas, Karagiorgos and Arampatniz, 2015](#); [Tran, 2018](#); [Dessalegn and Aderajew, 2007](#); [Donlaya, 2012](#); [Zulkifli, Alagan and Mohd, 2014](#); [Amanuddin and Divyaa; 2014](#), [Hella and Mohamed; 2016](#), [Alhassan, Erasmus and Fred; 2018](#), [Ruth and Tabitha; 2018](#) and [Kanbiro, 2019](#)). Based on the depth of literature reviews and experiences, the following research questions were formulated in this study.

RQ<sub>1</sub>: Do some identified factors significantly affect the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka?

RQ<sub>2</sub>: Is there any relationship between the identified factors in this study and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka?

The main objective of this study was to figure out factors significantly affecting the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka. Meanwhile, the sub-objective of this study was to identify the significant relationship between the identified factors and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

## **LITERATURE REVIEW AND HYPOTHESES**

### **Agency Theory**

[Barry \(2015\)](#) stated that agency theory is a contract between owners of an organization and top management of an organization. Generally, top management acts as an agent to perform operations of an organization on the behalf of the owners. The owners delegate authorities to the top management to act on

their behalf. In this situation, the granted authorities can be misused by the top management of an organization. Thus, audit committee, internal and external auditors play a significant role to ensure the reliability of financial information, effective and efficient operations & legal compliance of an organization. Internal auditors act as agents reporting their works which are then used by others (Peursem and Pumphrey, 2005). If there is inefficient board and audit committee, the agency problems may arise. The senior management may significantly affect the functions and duties of internal audit division. In this crucial situation, a question may be raised related to the effectiveness of internal audit reporting and service quality of internal audit division.

Internal auditors are appointed by the top management of an organization and then internal auditors act as the agents. Board and audit committee believed that internal auditors honestly evaluate and report the performance of management and their works. Internal auditor may expect some personal benefits from the management, such as financial rewards, personal relationships with management, future internal auditor positions as, and salaries. Thus, the effectiveness of internal audit reporting and service quality of internal audit division is questionable. The board and audit committee expects that internal auditors must perform their role with adequate professional qualifications, competencies and experiences. The internal audit reports are greatly beneficial for the effective and efficient risk management of an organization. Internal auditors have the primary responsibility to evaluate internal control system on each activity of an organization and report their evaluations to the top management of an organization. Thus, internal auditors should collect sufficient and appropriate proofs to increase the quality of their reports. Internal auditors also have to materially consider the effective and efficient communication with the users of internal audit reports. Internal auditors are the employees of an organization evaluating the operations of an organization as well as the resource allocation & use. The Support from top, middle, and bottom level staff members are expected for more effective and efficient functions of the internal audit division of an organization.

### **Accountability & Transparency**

Today, the needs for accountability and transparency have continuously increased in both public and private sector. Accountability is the obligation of employees to employers based on their duties and responsibilities. Transparency is one key attribute of good governance and faithful work. It is one code of ethics to the professional auditors. The accountability and transparency levels should be higher in public sector. Public sector organizations use public finance which fund is mostly collected from the general public of a country. Thus, public sector organizations are accountable to the general public of a country and their work should be transparent to the general public of a country. Internal auditor has the accountability to the top management based on the responsibilities and duties assigned by the top management of an organization. The internal auditor has certain transparency level to maintain confidentiality.

### **Internal Auditor Competencies**

Staff competencies have vital roles related to the performance of an organization. According to Sri Lanka Chartered Accountants (2016), professional competence is one code of ethics for professional accountants. Sri Lanka Chartered Accountants stated that competent professional service requires a sound judgment exercise in applying the professional knowledge and skill in performing such service. Internal auditors also provide professional and high efficiency service to the organization to maintain their professional competencies at the acceptable level.

### **Materiality**

People give more consideration on materiality since having vital role in the audit process and reporting. Sri Lanka Auditing Standard (SLAuS) 320 clearly stated that, assessment is material for a professional judgment. The standard highly recommended that, the auditor should establish an acceptable materiality level in designing the audit plan to quantitatively detect the material misstatements. However,

both quantity and quality of misstatements need to be considered. Stakeholders and top management of an organization focus on materiality information in which internal auditor has the responsibility to report the materiality information.

### **Audit Evidence**

Auditors should arrive to their professional and independent opinions based on the collected audit evidence in the audit process. Auditors have the major responsibility to draw and issue reasonable opinions depending on sufficient and appropriate audit evidence (SLAuS 500). Audit evidence included legal references for auditors' conclusions. There are many techniques to obtain audit evidence, which can be different from one audit to the others audit and one audit firm to the other audit firms.

### **Internal Auditor Independence**

Tran (2018), independence should be given to the employees for their innovative and independence work. Audit is one of independent services in the world. They have the responsibility to provide independent opinions on the assigned work. Independence will increase the quality of audit work and report further, internal auditor should perform their work independently for the effective and efficient reporting. Furthermore, top management has the responsibility to adequately ensure the independence of internal auditor.

### **True and Fair View**

Tran (2018), auditors have the major responsibility to give their professional opinions through their audit reports. Such audit reports should have true and fair view to become valid reports in the decision making. Internal auditors also have the responsibility to report to the top management at regular intervals, their reports are more valuable in the risk management and corporate level decision making related to the management. Thus, internal auditors should prepare and present their reports as true and fair view.

### **Performance Audit**

According to Tran (2018), audit has a number of evolutions in the world. Nowadays, performance audit is mostly expected by the stakeholders of an organization. Performance audit provides more benefits than traditional audits and gives more priority to the performance than the physical documents. Performance audit covers three major areas, such as effectiveness, efficiency, and economy. Today, internal auditor should also focus on performance audit to fulfil the requirements and expectations of the stakeholders of an organization.

### **Resources & Facilities**

Tran (2018) also stated that adequate resources and facilities should be allocated for the effective function of a division and also given the resources and facilities to be utilized at optimum level for the higher-level performance of an organization. Internal audit division is one division in an organization. Internal audit division should be facilitated with adequate resources and utilized the resources at optimum level for higher level performance of internal audit division.

### **Empirical Findings**

According to the depth of literature reviews, different factors were tested to identify the effect on the effectiveness of internal audit in several studies. The researcher considered that all existing tested factors and assessed factors affected the effectiveness of internal audit in this study. Those factors included Accountability & Transparency, Internal Auditor Competencies, Materiality, Audit Evidence, Internal Auditor Independence, True and Fair View, Performance Audit, Resources & Facilities on the effectiveness of internal audit report in this study. There are many studies on the assessment of internal audit effectiveness. However, those studies were still few conducted in Sri Lanka.

The researcher examined the factors affecting the effectiveness of internal audit. The statistical analysis of this study revealed that the quality of internal audit and the support of management significantly affected the effectiveness of internal audit (Dessalegn and Aderajew, 2007).

The researcher examined the perception of respondents related to the factors possibly affecting the effectiveness of internal audit. The researcher considered the internal auditor competencies, internal audit division size, relationship between internal and external auditors, management support and internal auditor independence in this study. The Results confirmed that the management support was the most significant factor in determining the effectiveness of internal audit. The other significant factors also determine the effectiveness of internal audit (Alhassan, Erasmus and Fred, 2018).

The researcher found that, internal auditor independence, objectivity, management support, internal audit function, and organization sector significantly affected the effectiveness of internal audit (Hella and Mohamed, 2016). The researcher stated that internal audit should improve the performance of public sector. The researcher then evaluated the effect of internal audit quality on the performance of public sector in Ethiopia. The research data were collected through questionnaire. Regression analysis revealed that internal audit independence, internal auditor competencies, management support significantly and positively affected the internal audit quality exclude from the tested eight factors in this study (Kanbiro, 2019).

H<sub>1</sub>: The identified factors significantly affect the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1a</sub>: accountability & transparency significantly affect the effectiveness of internal audit reporting in public sector, in the Northern Province of Sri Lanka.

H<sub>1b</sub>: of internal auditor competencies significantly affect the effectiveness of internal audit reporting in public sector, in the Northern Province of Sri Lanka.

H<sub>1c</sub>: Materiality significantly affects the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1d</sub>: Audit evidence significantly affects the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1e</sub>: Internal auditor independence significantly affects the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1f</sub>: true and fair view significantly affect the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1g</sub>: Performance audit significantly affects the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>1h</sub>: The use of resources & facilities significantly affects the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

The researcher assessed the factors affecting the efficiency in internal audit performance and the relationships between efficiency in internal audit performance and operational outcomes in the selected companies listed on Thai Stock Exchange. The results confirmed that operation completeness and information system, understanding and acceptance within the organization, knowledge, skill, and human relations as well as the relationship between internal audit units and the others affected the internal audit efficiency (Donlaya, 2012). The researcher revealed that internal auditors faced a serious problem due to the low level of internal auditor independence and competencies. The researcher also stated that the relationship between internal auditor and external auditor was also an issue related to the effective and efficient performance of internal auditor (Amanuddin and Divyaa, 2014).

The researcher noted that, internal audit functions were greatly important and essential for controlling, monitoring, and assessing the public sector financial management. Descriptive, correlation and regression analysis were performed in this study. The statistical analysis of the study confirmed that there was a positive and significant relationship between competency of internal auditor, independence of



internal auditor, objectivity, and management support and internal audit effectiveness (Zulkifli, Alagan, and Mohd, 2014).

The researcher revealed that working environment, internal auditor independence, internal auditor competencies significantly affected the performance of internal audit function. The researcher recommended that internal auditor should be complained with professional ethics and standards for the better internal auditor performance and further should be trained with regular intervals (Ruth and Tabitha, 2018). The researcher assessed the effect of internal audit function on the financial performance of commercial Banks in Sri Lanka. The researcher used five-point Likert scale questionnaire to collect the research data. The statistical results of the study revealed that, Internal Audit Standards, Professional Competencies, and Internal Controls had positive relationships with financial performance of commercial banks in Sri Lanka. Furthermore, the internal auditor independence had the relationship with financial performance, yet not at a significant level (Hasini and Sithumini, 2019). The researcher examined the relationships between internal audits' characteristics and organization performance an in Sri Lanka (Dissanayake, 2015). The researcher evaluated the effect of internal control components on the effectiveness of internal control system of Peoples Bank in Sri Lanka. The descriptive and inferential analysis were performed in this study. The researcher found that, internal control components had positive relationship with the effectiveness of internal control system (Gamage and Keving, 2018).

H<sub>2</sub>: There is a significant relationship between the identified factors and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2a</sub>: There is a significant relationship between accountability & transparency and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2b</sub>: There is a significant relationship between the internal auditor competencies and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2c</sub>: There is a significant relationship between materiality and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2d</sub>: There is a significant relationship between audit evidence and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2e</sub>: There is a significant relationship between internal auditor independence and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2f</sub>: There is a significant relationship between true and fair view and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2g</sub>: There is a significant relationship between performance audit and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

H<sub>2h</sub>: There is a significant relationship between the use of resources & facilities and the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

## METHODS

### Samples and Data Sources

The researcher selected the district secretariat offices from the central government and the Northern Provincial Council main administrative office. There were five district secretariat offices (Jaffna, Vavuniya, Killinochchi, Mannar, and Mulaitivu) and one main administrative office of Northern Provincial Council. The researcher collected the data from all district secretariat offices instead of Mannar district secretariat office and main administrative office of the Northern Provincial Council.

The researcher had developed five-point Likert scale questionnaire. A number of Likert scale questions had been included in each research variable where, 1 represented strongly disagree and 5 represented strongly agree in the questionnaire. The research data were collected through the developed questionnaire to the heads of departments, divisions, chief internal auditors and internal auditors of central and provincial government in the Northern Province of Sri Lanka.

**Conceptual Framework and Data Analysis**

Figure 1 shows the conceptual framework clearly reveals the relationship between the identified factors and the effectiveness of internal audit reporting. Descriptive and inferential (regression and correlation) analyses were performed in this study to answer the research questions and test the hypotheses with the assistance of SPSS latest version.

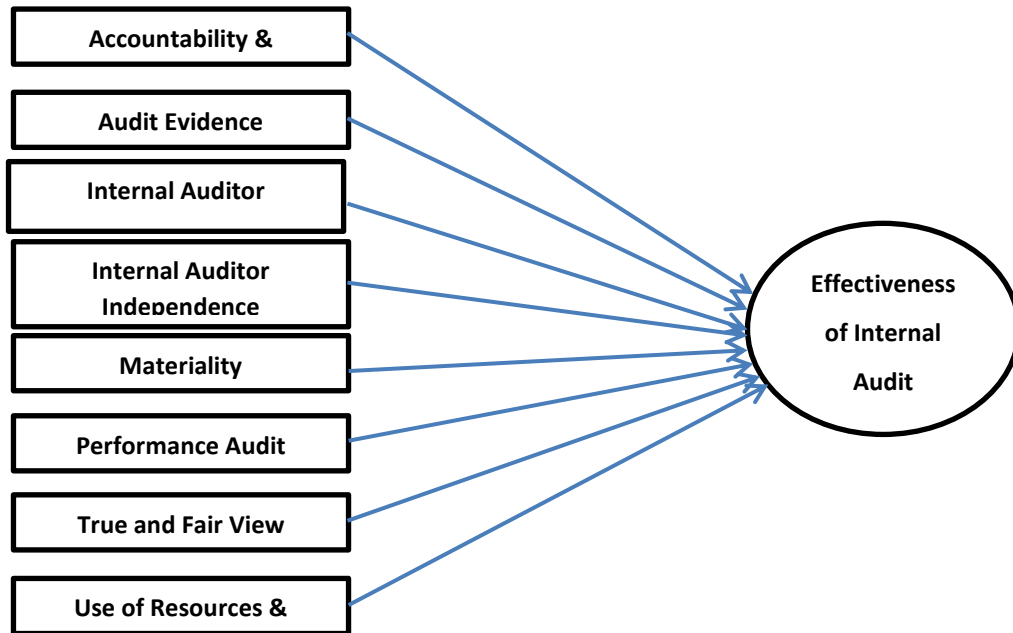


Figure 1. Conceptual Framework

**RESULTS AND DISCUSSION**

**Research Respondents**

The research data collected from heads of departments, divisions, chief internal auditors and internal auditors of central and provincial government in the Northern Province of Sri Lanka through the developed questionnaire. The following table shows the data of research respondents.

Based on table 1, it can be seen that more than 50% of respondents were female and more than 50% of respondents aged between 31 – 50 years old. In addition, more than 65% of respondents had more than 11 years of working experience.

**Data Reliability and Validity**

Table 2. Reliability Statistics

Cronbach's Alpha	Total Items
.918	32

Based on Table 2. above, it can be seen that Gronbach’s Alpha was more than 0.7 (70%) for each research variable. Thus, it can be stated that the data reliability was very high.

**Table 1. Data of Research Respondents**

Element	Category	Total Respondents
Position	Head of department/ division	21
	Chief internal auditor/ internal auditor/ internal audit staff	58
Working Station	Central government	32
	Provincial government	47
Sex	Male	37
	Female	42
Age	Below 30 years old	14
	31 - 40 years old	22
	41 - 50 years old	26
	51 - 60 years old	17
Working Experience	0 - 10 years old	27
	11 - 20 years	34
	Above 20 years	18

**Table 3. Factor Analysis**

Kaiser-Meyer-Olkin Sampling Adequacy Measurement		0.789
Bartlett's Sphericity Test	Approx. Chi-Square	1368.160
	Df	496
	Sig.	.000

According to Table 3. Above, the value of Kaiser-Meyer-Olkin (KMO) clearly indicated (0.789) that the research data were more appropriate for the structure detection. It meant that the research data (78.9%) were valid. The **Bartlett's Sphericity test** had high significance value (0.000). Thus, it can be stated that the data validity was classified into high category.

### Descriptive Analysis

**Table 4. Descriptive Statistics**

	Minimum	Maximum	Mean	Std. Deviation
Internal Audit Reporting	2.50	5.00	4.0617	.52459
Accountability & Transparency	2.80	5.00	4.0177	.54556
Internal Auditor Independence	2.00	5.00	3.6614	.73165
Internal Auditor Competencies	2.75	5.00	3.9019	.61030
Materiality	2.00	5.00	3.5000	.66986
Audit Evidence	2.00	5.00	3.9114	.64926
True and Fair View	2.00	5.00	4.0000	.75107
Performance Audit	2.75	5.00	4.0918	.58449
Resources & Facilities	2.00	5.00	3.8544	.71231

According to Table 4, it can be seen that internal audit reporting, accountability & transparency, true and fair view, and performance audit of internal audit division are slightly higher than the agree level. However, internal auditor independence, internal auditor competencies, materiality, audit evidence, and



resources & facilities allocated and used by the internal audit division are at the moderate level in public sector in the Northern Province of Sri Lanka. The performance audit shows the highest agree level among the other factors. According to this table, materiality and internal auditor independence should be improved and increased since at the lower level than the other factors. There were no factors, having 5 mean values in this study. Audit materiality was the key for the audit reporting due to the results of study in which materiality shows only 3.5. Thus, it can be seen that audit materiality possibly increased and improve the quality of internal audit reporting in the future.

**Regression Analysis**

**Table 5. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727 <sup>a</sup>	.528	.475	.38026

a. Predictors: (Constant), Accountability & Transparency, Data Internal Auditor Data, Materiality, Audit Evidence, Internal Auditor Independence, True and Fair View, Performance Audit, Resources & Facilities

According to the model summary of regression analysis, the adjusted R square revealed that the independent variables affected the effectiveness of internal audit reporting up to 47.5 %.

**Table 6. ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.343	8	1.418	9.805	.000 <sup>b</sup>
	Residual	10.122	70	.145		
	Total	21.465	78			

a. Dependent Variable: Internal Audit Reporting

b. Predictors: (Constant), Accountability & Transparency, Internal Auditor Competencies, Materiality, Audit Evidence, Internal Auditor Independence, True and Fair View, Performance Audit, Resources & Facilities

According to Table 5 above, it can be seen that there was a significant effect of the tested factors on the effectiveness of internal audit reporting in this study. Therefore hypothesis 1 was accepted (Sig. 0.000).

Table 7 clearly shows that independence, and accountability & transparency of internal auditors significantly affected the effectiveness of internal audit reporting, with the p-values of respectively 0.001, and 0.001. Therefore, sub hypotheses **H<sub>1a</sub>** and **H<sub>1c</sub>** were accepted in this study. It was a great signal that the top management of public sector could consider independence, and accountability & transparency of internal auditors to improve the internal audit reporting in public sector.

However, auditor competencies, materiality, audit evidence, true & fair view, performance audit and resources & facilities allocated and used by the internal audit division were not significantly affected the effectiveness of internal audit reporting with the sig. value of respectively 0.136, 0.264, 0.443, 0.848, 0.822, and 0.053 above the significance level of 5%. Thus, sub hypotheses **H<sub>1b</sub>**, **H<sub>1c</sub>**, **H<sub>1d</sub>**, **H<sub>1f</sub>**, **H<sub>1g</sub>** and **H<sub>1h</sub>** were rejected in this study. Those factors should be improved and public sector organizations should find the other significant factors positively affecting the internal audit reporting. It is mandatory for the future improvement of internal audit reporting in public sector.

**Table 7. Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.365	.405		3.373	.001
AT	.381	.106	.397	3.582	.001
IAI	.250	.069	.349	3.602	.001
AC	-.137	.091	-.160	-1.507	.136
M	-.087	.077	-.111	-1.125	.264
AE	.068	.089	.085	.772	.443
TF	.013	.070	.019	.192	.848
PA	.023	.103	.026	.226	.822
RF	.174	.089	.237	1.967	.053

a. Dependent Variable: Internal Audit Reporting

### Correlation Analysis

**Table 8. Correlations**

		AT	IAI	AC	M	AE	TF	PA	RF
IAR	Pearson Correlation	.582**	.559*	.308**	.153	.355**	.378*	.436**	.507**
	Sig. (2-tailed)	.000	.000	.006	.179	.001	.001	.000	.000

Correlation analysis revealed that, there was a significant relationship between the most tested factors and internal audit reporting in this study. The most tested factors had the significance level of 5%. It was a great indication related to the internal audit reporting in public sector. Top management had the responsibility to do positive effects on the internal audit reporting by considering the tested factors. Therefore, hypothesis 2 and all other sub hypotheses under H<sub>2</sub> except H<sub>2c</sub> were accepted in this study. However, audit materiality had no significant relationship with the effectiveness of internal audit reporting in this study. Therefore, sub hypothesis H<sub>2c</sub> was rejected while the others were accepted in this study. Top management should take the necessary steps to improve the materiality of internal audit reporting to improve the internal audit quality in public sector through adequate professional training, seminar, workshop, and competencies.

### CONCLUSION

According to the code of best practice on corporate governance (2017), top management has the responsibility to establish adequate internal control system of an organization. Internal control system is also important for the high level performance of an organization. Management has the responsibility for the development of internal control system. Thus, management is monitored and reported by the internal auditors of an organization. Most public sectors of an organization have internal audit division in Sri Lanka. According to the research results the tested factors have significant effect on the effectiveness of internal audit reporting. Further, internal auditor independence and accountability & transparency of internal auditors have more significant effect on the effectiveness of internal audit reporting in this study. Finally, it can be concluded that, accountability & transparency of internal auditors, internal auditor competencies, materiality, audit evidence, of internal auditor independence, true and fair view of internal auditors, performance audit, resources & facilities allocation and use have significant effect on the effectiveness of internal audit reporting in public sector in the Northern Province of Sri Lanka.

The effectiveness of internal audit reporting is essential for effective risk management of an organization. Nowadays, most countries try to improve the risk management in public sector throughout the world. According to the research findings, it can be recommended that, internal auditor independence should be ensured to increase the effectiveness of internal audit reporting in public sector in Sri Lanka. Internal auditors should also consider their accountability and transparency to increase the effectiveness of internal audit reporting in public sector in Sri Lanka. The research findings clearly confirmed that, internal auditor independence significantly affects the effectiveness of internal audit reporting due to the internal auditors; act as agents to the board and audit committee of an organization. Policy makers and regulatory bodies in public sector should confirm that internal auditors should not act as agents to the top management nor allow to work with adequate independence in public sector.

There are three limitations of the study: It covers four district secretary offices, covering the northern provincial council and some other provincial departments in the Northern Province of Sri Lanka.; The researcher was unable to collect the data from district secretary office of Mannar and This research period was considered relatively short and the research data were collected in short time. Thus, the response rate was only 56.42 %.

Internal auditing plays a vital role in the risk management of an organization and significantly contributes on the operation effectiveness, financial information reliability, and legal compliance of an organization in both private and public sector. The actual contribution of internal audit depends on two important phases: internal audit system development and its implementation. Therefore, it is necessary to conduct future research in both sectors at regular intervals. This research was conducted in the Northern Province, therefore the future researcher should consider the other parts of Sri Lanka to reveal the actual findings related to this research area and to compare those findings as provincial policies as well as central and provincial government policies for special recommendations to improve the internal audit reporting in public sector in Sri Lanka. They should also consider to conduct similar research in private sector to figure out the most significant affecting factors on internal audit reporting and improve the internal audit reporting in the private sector of an organization in Sri Lanka.

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