

TOWARDS AN APPROACH BASED ON INTERNAL AUDIT FOR AN INTEGRATIVE THEORETICAL FRAMEWORK OF THE GOVERNANCE OF PUBLIC ORGANIZATIONS

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Abstract- In recent years, the increase in risks in the economies of the countries and the failures of several companies have highlighted the need for increasingly effective management and control tools. In such a context, the establishment of an internal audit function is necessary for organizations. Given their several interventions for social and economic development, reduction of territorial disparities, international openness, and advancement of both private and public investment in a multitude of sectors of activity, their transparency, commitment to governance, environmental and social responsibility, accountability and ethics, Public Enterprises and Establishments (EEP) are main players in Morocco's development model. Their internal audit requirements are currently significant as a result of the increasing economic and social weight, as well as management requirements related to the reduction of public expenditure and the optimization of resource utilization. As a result, public management henceforth requires more effective, efficient and less costly organization and management, through the implementation of relevant tools, in particular internal audit.

Keywords: Internal Audit, Internal Control, Risk Management, Performance, Good Governance.

1. INTRODUCTION

In recent years, the increase in risks in the economies of the countries and the failures of several companies have highlighted the need for increasingly effective management and control tools. The proper functioning of any organization therefore requires a mastery of its external environment but also internal by the leaders. This control requires the correct monitoring of the operations carried out and the use of adequate means. In such a context, the establishment of an internal audit function is necessary for organizations [1-3]. But in developing countries, due to the young age of the profession, auditing is always viewed with fear, despite the particular, professional and salutary outlook it brings.

Public Enterprises and Establishments (EEP) are key participants in Morocco's development model, owing to

their numerous interventions in the provision of public services to residents, the implementation of structuring projects for economic development, and social and regional planning. Their internal audit requirements are currently large as a result of the expanding economic and social weight, expanded capabilities, and management requirements related to the rationalization of public spending and the optimization of resource utilization. As a result, public management now requires more effective, efficient and less costly organization and management, through the implementation of relevant tools, in particular internal audit [4, 5].

Internal audit will therefore be the tool which will allow to assess the achievements of public establishments with a view to making their management more efficient, to comply with good governance practices and to achieve the expected economic and social development objectives [6, 7].

2. HISTORICAL BASIS OF AUDIT AND DEVELOPMENT OF INTERNAL AUDIT

2.1. Genesis of the Audit Concept

The notion of "audit" has known for some years a growing fervor and the term has been seen gradually applied to a whole series of fields one speaks about financial audit, internal audit, marketing audit, audit environment or social audit. The common point of all these approaches is the verification of compliance with standards or defined criteria, of which a critical evaluation process must ensure they are correctly implemented [8].

First steps to regulate and manage accounts can be traced back to antiquity. The Sumerians of the 2nd millennium BC recognized the value of exchanging objective information between trade partners. The legendary Hammurabi code not only specified fundamental commercial and social laws, but it also expressly stated the requirement to utilize a chart of accounts and adhere to presentation criteria in order to build a dependable medium of financial communication. Later, as early as the third century BC, the Romans governors appointed quaestors to oversee the accounts of

all provinces. This is when the name "audit" was coined, derived from the Latin *audire*, which meaning "to listen." Questors presented their findings to an assembly of "auditors". However, but it was not until nineteenth century that these techniques evolved systematically - in both scope and in approach - in tandem with the rise of modern commerce. Gradual emergence of audit in its current form may be traced back to this historical period.

2.2. Internal Control in the Company and Purpose of Internal Audit

The extent and complexity of organizational structures have led to significant adaptations in the management of companies, in particular in the decision-making process, the delegation of powers and, as a corollary, in the organization of control [9].

This change in the organization of control relates to the knowledge of the essential nature of the existence in each organization of a company, on one hand of a coherent internal control, that is to say of a set supply integrated into the operational and practical processes aimed at ensuring their proper functioning, and on the other hand, an internal audit function, provided by an independent service acting by delegation and on behalf of general management. Indeed, internal control procedures to be implemented cannot be combined according to whether they specifically concern one or the other sector [10].

2.3. Context of Internal Control

Internal control is all the provisions included in organizations and in procedures whose purpose is to ensure:

- Asset security (all real and intangible assets, stocks, human resources and image of the institution);
- The regularity of operations;
- The application of laws, regulations and internal directives;
- The quality of the information;
- The efficiency of the operation of the company.

The public or private company is in a permanent state of internal control as soon as it has, as a whole, an organization adapted to achieve its objectives.

While each organization is continuously responsible for its internal control, the department must be the promoter of internal control and its effectiveness at the best cost [11, 12].

3. IMPLEMENTATION OF INTERNAL AUDIT IN EEP

One of the foundations of governance in this sector is the internal audit function in the public sector. Internal public sector audits play a role in ensuring that entities are accountable to citizens as part of the monitoring and evaluation process.

3.1. Reasons for the Establishment of Internal Audit in the Public Sector

The expectations vis-à-vis public services in terms of quality and productivity require them to constantly

increase control over their internal functioning. The credibility and legitimacy of administrative action are intimately linked to the performance of the organization. In this context, auditing is increasingly being given a prominent place among the techniques and tools intended to improve the management of public organizations [13].

The successive changes that have arisen in the management of public institutions in recent years (i.e., an evolution from purely static administrative management to dynamic management) have given rise to the need for a who can advise management of its tasks performance. An internal audit service is perfectly suited to take over this "advisory function".

In the wake of the first fluoroscopies or analyzes of public institutions, the demand for internal audit in the public sector has grown. The fundamental task was the permanent critical analysis of the functioning of public sector entities. Auditors were expected to be able to adapt the requirements of an effective and efficient public service to the specific culture of the department [14].

The survival of an organization depends on its ability to effectively fulfill its objectives, which is valid for both a commercial enterprise and a public organization. This pressure is probably less radical in its effects in the public sector, but it remains very important insofar as the citizen demands more and more from the State to be accountable to him for its activities.

Public organizations must therefore become dynamic in order to meet the demands of a diverse and changing environment. This reality explains the reforms that our public administrations have undergone for several years. These reforms are essential but they are neither easy to implement nor without a risk. In the reform process, fundamental points of reference affecting the identity of the organization may be lost. Due to its unique position in the organization, internal audit must play a key role in the reform process in order to guide and monitor it.

Setting up an audit unit often involves overcoming a psychological obstacle. This new service will have to work in complete independence and will therefore have to be accepted by the other components of the organization. However, there is rarely a consensus on the creation of an audit unit. In this regard, it is important to know what the administration, the secretary general and the directors expect from such a unit, because their support is essential. The audit charter which will circulate in the organization will inform the members of the organization of the exact position of the cell. It is under these two conditions that an internal audit department can truly add value to the organization. This does not, however, exempt auditors from "selling themselves" to the organization [15].

A series of factors which militate in favor of the application and development of modern auditing methods to public bodies include:

- Privatization
- The international opening process:
- Need for good governance
- Size of the organization
- Geographical decentralization

- Activity area
- Staff qualification
- Management policy

3.2. Institutional Context of the Establishment of Internal Audit in the Moroccan Public Sector

Since 1985, Morocco has had a chapter of the IIA through the Moroccan Association of Internal Auditors and Consultants, "AMACI".

Several texts have emphasized the creation of a favorable environment for the promotion of Internal Audit and good governance within public establishments and Ministries:

▪ **Royal Letter of August 1993:** This letter which has the force of law was sent by His Majesty the King to the Prime Minister, inviting him to submit public establishments and administrations to the Audit; "Auditing is now standard practice in companies and enterprises. You will have it done in all public establishments where it is felt ". (The economist newspaper, Edition No. 3 of 11/14/1993);

▪ **Circular of the 1st Minister - September 1993:** It includes the Royal instructions and:

❖ Orders all Ministers to submit Public Establishments under their supervision to External Audit;

❖ Request the creation:

- Internal Audit Departments within Industrial and Commercial Public Establishments;

- General Inspections within Administrative Public Establishments.

❖ Decrees the submission of all aspects of the management of these establishments to Internal and External Audit.

▪ **Decisions and Sectoral Circulars by Ministry:** For example, Decision n °: DPE 113/70/16 of September 23, 1993, organizing the Audit function of Public Enterprises under the supervision of the Ministry of Public Works, subjecting them to three types of Audit: Financial Audit, Internal Audit and Management Audit. In addition, we find:

▪ The Law on the establishment of the Court of Accounts and Regional Courts of Accounts;

▪ Law No. 17/95 on Public Limited Companies; Circular No. 6 of the Governor of Bank Al Maghrib Imposing on Credit Institutions the establishment of a formalized Internal Control system (Article 1) and the creation of a control body with a manager responsible for monitoring and evaluating the internal control system put in place (Article 5).

▪ Law n ° 69-00 on State financial control over public enterprises and other organizations.

4. CONTRIBUTION OF INTERNAL AUDIT TO THE GOOD GOVERNANCE OF PECS IN MOROCCO

4.1. Objectives of Corporate Governance

Corporate governance addresses two main issues: creating value and for whom value should be created. This is to ensure a fair distribution of the value created

between all the co-owners of the company and all the stakeholders who intervene in this process of wealth creation, which makes fundamental the notion of creation of the value. Corporate governance therefore does not boil down only to the sole problem of aligning the interests of managers with the interests of shareholders, but above all concerns the need to create value.

Therefore, Igalens, et al. (2009) define the main objectives of corporate governance as follows [16]:

▪ Ensure that directors offer strategic leadership and effective managerial oversight.

▪ Contribute to the transparency and efficiency of the markets and define the distribution of responsibilities between managers and shareholders;

▪ Ensure fair treatment of all shareholders;

▪ Recognize the rights of the different stakeholders;

▪ Ensure the timely dissemination of accurate information;

▪ Participate in risk reduction.

An effective corporate governance system must be able to resolve the root causes of the governance problem, i.e., conflicts of interest and their consequences which are among others:

➤ Information asymmetry: The withholding of relevant information by leaders in order to have power in decision-making.

➤ The problem of value creation: The opportunistic nature of employees who can contribute to deteriorate or create value, the lack of transparency, ethics and loyalty on the part of the leaders.

4.2. Internal Audit Relationships with Corporate Governance Stakeholders

4.2.1. Internal Audit and Board of Directors

The Board as a disciplinary mechanism must define and enforce chains of responsibility and accountability throughout the organization to ensure the integrity of key information and oversight systems. The establishment of an internal audit system placed under the direct authority of the board makes it possible to achieve this objective. Internal Audit brings its expertise to the board via the audit committee, a specialized body of the board of directors, responsible for controlling financial information and the professionals who verify its quality: the external auditors and the internal auditors whose field covered is knowledge and monitoring of risks [17].

The relationship between the internal audit and the audit committee is materialized by the permanent or periodic participation of the head of internal audit in the meetings of the audit committee, according to the procedures adopted by the company. The audit committee is the privileged interlocutor of the internal audit department. It guarantees and enshrines the independence of the IA. In the absence of an audit committee, the relationship between internal audit and the board of directors is less effective on corporate governance [18].

4.2.2. Internal Audit and External Audit

The external audit (here legal) or the auditor (Auditors), is mandated by the shareholders to check the reliability of the financial information produced by the managers. Its main mission is to certify the regularity, sincerity and faithful image of the accounts by relying on the procedures which contribute to the production of said accounts, that is to say, accounting and financial information. In this sense, internal audit plays a complementary role to the action of the auditor. According to IFACI (2009), it provides the latter with reasonable assurance on the degree of control of the company's activity on the basis of an analysis of operational, compliance and financial risks, and on an assessment of the internal control system relating thereto, on the understanding that the work of the Auditors on the financial statements depends on the conclusions on the assessment of internal control [19].

4.2.3. Internal Audit and General Management

In the value creation process, decisions are taken by managers, but their implementation is the responsibility of employees who can themselves adopt opportunistic behaviors (that is to say contrary to the objectives set) that can destroy wealth created. It should be noted that from a managerial point of view, organizations are made up of individuals with different interests. Thus the conflict opposing the employees, who represent labor capital, to the owners of the resources, the shareholders, essentially relates to the sharing of the profits generated by the capital / labor pair that each party considers more appropriate. (Ebondo, 2006: 52-53). It is therefore up to management to put in place an effective control system for employees in order to converge the various interests towards the objective of the organization. This control must relate to the behavior, the degree of control of the activity of the employee and his performance. Internal Audit, with its approach entirely focused on risk assessment, analysis of their control and on the constructive search for corrective solutions, can, according to IFACI (2002), play a decisive role and very upstream in prevention of this "destruction of value" [20].

4.2.4. Internal Audit and Risk Management

Risk management is a function at the service of general management and the management responsible for managing the risks of the company. It identifies, at the global level, all internal and external risks relating to the activity of the company, maps the risks in order to assess and prioritize them. Based on the results of the risk mapping, the Risk Manager (RM) defines and proposes to the general management, a strategy to manage them, i.e. risk appetite (the acceptable level of risk), the procedures and means to be implemented to avoid, minimize or reduce the impact of the risk or to transfer the risk. Internal audit assesses the effectiveness of these procedures which constitute internal control in order to control the risk. In practice, internal audit defines its audit plan from the risk mapping developed by risk management.

Risk management is a function upstream of internal audit. The Risk Manager helps management manage risk and internal audit helps them control risk. In the absence of the RM, internal audit performs this function but within the limits of risk identification. Management remains responsible for risk management and the priority of internal audit is to assess internal control and the actual risk management process according to the 2100 standard [21].

4.3. Internal Audit Mechanism of Governance of PEEs

Public Enterprises and Establishments (EEP) are main players in Morocco's model of development, owing to their numerous interventions in the provision of public services to citizens, the implementation of structuring projects for social and economic development, territorial disparities reduction, regional planning, international openness and advancement of private and public investment in numerous sectors and their firm commitment to governance policies and practices.

Because of the expanding social, expanded skills, economic weight, and management regulations related to the reduction of state expenditure and optimization of resource utilization. IA needs are currently considerable. As a result, public management henceforth requires more effective, efficient and less costly organization and management, through the implementation of relevant tools, in particular internal audit. Internal audit will therefore be the tool which will make it possible to assess the achievements of public establishments with a view to making their management more efficient, to comply with good governance practices and to achieve the expected economic and social development objectives.

Moroccan internal auditors, like their counterparts around the world, must, in the exercise of their activity, respect the International Reference Framework of Professional Practices of Internal Auditing (CRIPP) which consists of: Internal Audit, the code of ethics and professional standards for internal audit. These three elements constitute the "Mandatory provisions" of the CRIPP, the practical modalities of application "Best Business Practices-MPA", the position statements of the IIA-Global and the "GTAG" practical guides, which form the "Strongly Recommended Provisions" of CRIPP. They must also conform with Moroccan regulations, which demand that internal audit be established, both at the level of public and private organizations, that it is affiliated to the General Directorate, and that it reports to the Board of Directors and the Audit Committees in the framework of effective governance.

Despite the reforms implemented by the State, the mode of governance and management of public sector establishments in Morocco is the subject of recurring criticism on the insufficient generalization of specialized committees (audit, strategy, investment, etc.) and the lack of training on governance principles dedicated to State representatives.

5. PRACTICAL STUDY OF INTERNAL AUDIT IN THE PUBLIC SECTOR IN AFRICA

A study on the practice of internal auditing in the public sector in Africa was carried out. It concerns the existence of an audit committee and the use of the Standards of the Institute of Internal Auditors (IIA). Figure 1 shows that Africa has a high proportion of audit committees (80%).

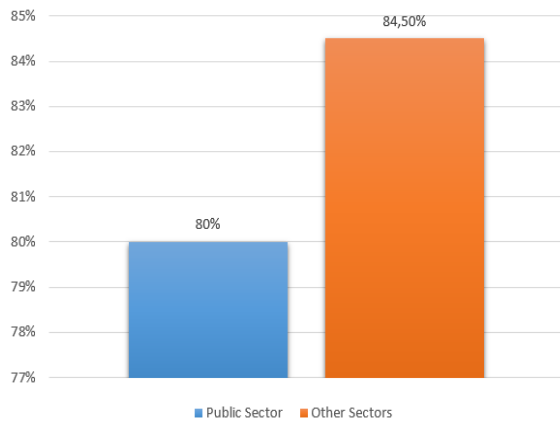


Figure 1. Existence of an audit committee (public sector compared to other sectors)

A closer analysis of the response 'use of all Standards' shows that more than half (56%) of public sector auditors report using all Standards, a figure slightly lower than the global average of 60% for respondents from other sectors (Figure 2). The use of all IIA Standards in the public sector is 58% compared to other sectors (Figure 3).

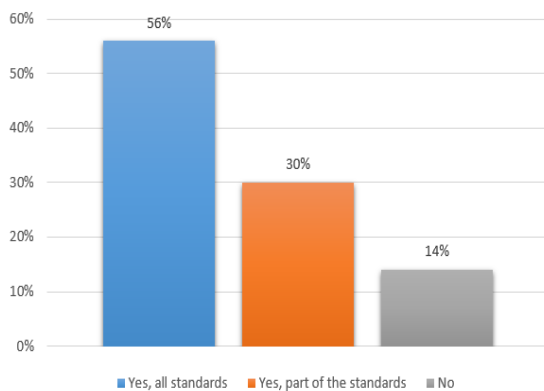


Figure 2. Average use of IIA Standards in the public sector

There are a lot of things that public sector internal auditors have to do. They must simultaneously manage a large panel of stakeholders and growing demands for more transparency and accountability for actions taken by public bodies. This situation has increased the demand for internal audit engagements even though the proportion of internal auditors who report not having sufficient resources is twice as high in the public sector.

Despite these obstacles, internal auditors in the public sector are involved in managing the strategic risks of their organization and refer to the Standards intensively. Internal auditors, who rise to the challenges specific to this sector.

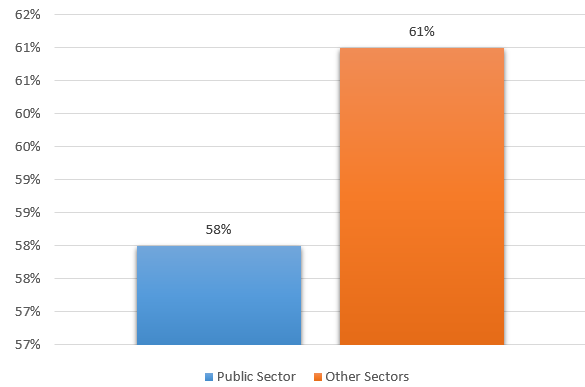


Figure 3. Use of all IIA Standards (public sector vs. other sectors)

6. CONCLUSION

By way of conclusion, we observe that the practice of internal audit appears to be a relevant mechanism for the governance of PEEs making it possible to control the risks of organizational dysfunctions and better manage public funds while ensuring the application of laws and regulations by force.

It can be said that by offering an objective and impartial assessment of the accountable and effective character of the management of public resources, the internal audit service helps government organizations to act in a responsible and integrated manner, to improve their activities and to maintain the confidence of citizens and other stakeholders. The audit goes hand in hand with surveillance, information and foresight aspects of governance.

FUTURE SCOPE

In the future works, we will take advantage of the power of digital models and current technologies [22], [23] to simulate case studies related to internal audit.

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BIOGRAPHIES



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