



EFFECTIVENESS OF INTERNAL AUDIT SYSTEM IN GOVERNMENT DEPARTMENTS IN THE STATE OF MAHARASHTRA

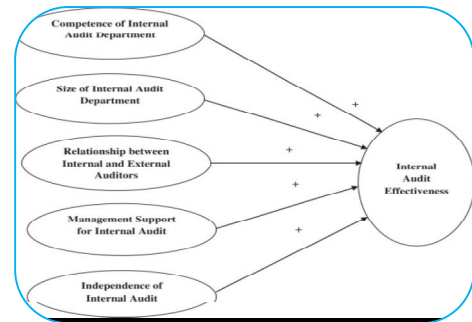
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ABSTRACT:

Internal audit system is integral process by which an organization governs its activities to achieve its objectives effectively. Internal audit defines all the primary functions of an organization. Internal audit system minimizes the risk of errors and irregularities and helps to protect resources against loss due to waste, mismanagement and ignorance. It helps find out weak points in an government department and provide appropriate solutions to sort out these obstacles and raise the speed of development of the department. The study aimed to foster integrity and combating fraud and corruption in government departments and also any other form of departments. The study seeks to identify the impact of support provided by management on performance improvement of internal auditor in department.



KEY WORDS: Effectiveness, Internal audit, Government department, Integrity, Corruption.

I. INTRODUCTION

The internal audit system is the major part in any organization. Traditionally people understand internal audit as an activity of self exposed internal check, but it tells what was department doing wrong? The contribution of the activity of internal audit is massive significance as an effective internal audit system leads to improve accountability, internal practices, effective risk management, improve quality of output and support decision making and performance tracking.

Therefore, internal auditor is charged with the responsibility of safeguarding the assets and liabilities of department and other constructive services that will enhance the efficiency and effectiveness of the operations of the organization through the review of accounting system, internal control system, implementation of the corporate policies and carrying out special investigations assigned by the management.

Internal audit is responsible for examining and evaluating the level of problems to departmental rules, provide assurance and solve all internal compliances and raise efficiency in the departments.

II. LITERATURE REVIEW

The purpose of this paper is to synthesis relevant theoretical and empirical literature to develop propositions and suggest a research agenda on the antecedents and organizational performance

implications of effectiveness of internal audit system in government departments in the state of Maharashtra.

Internal audit is used in every department to take the information about internal factors which utilized for doing something and to come to know they are being utilized effectively or not. So this research paper is being written to research on the factors which have already been written in secondary data up to some extent. As the extant literature does not provide a canon of internal audit effectiveness, the paper's originality is its argument that a positive association between compliance with standards for the professional practice of internal auditors an organizational goals achievement. Our focus in this paper is mainly on determinants of internal audit system in government departments for this purpose we developed and tested for hypothesis using different statistical tests.

Thus, internal audit as part of the internal control system put in place by management of the department to ensure adherence to stipulated work procedure and as add to government department so internal audit system helps to settle all weakness corners into the department it helps to suggest appropriate measures to sort out all short-comings. This review is the short summary of this research works.

III. OBJECTIVES

Following are the objectives of internal audit system in government departments in the state of Maharashtra.

- To implement various accounting forms for keeping the records of financial transactions of government offices as prescribed by the offices of auditor general.
- To assist for finding out all barriers which are responsible for low performance of firm.
- To help to utilize all factor of production efficiently and optimum way.
- To assist to raise productivity and control over all the areas in the departments.
- To determine the extent of economy, efficiency, effectiveness that resulted in the use of the resources that were given to the offices.
- To know information about all internal sources in the offices, whether they are being utilized efficiently or not in the state of Maharashtra.

IV. SCOPE OF INTERNAL AUDIT SYSTEM

The scope internal audit system in the government offices include the evaluation and examination of the adequacy and reliability of department of internal control. The scope of internal auditing within government offices is broad and may include topics such as the efficiency of operation, deterring and investigating fraud, safeguarding assets and compliances with laws and regulations. The appraisal of past transactions and happening probing into deviation from established policies and procedures, detection and prevention of errors and fraud, proper utilization of assets, sort out problems within department and suggest measures to solve them, safeguarding all tangible and intangible assets, to preserve the entire department against wasteful operations are included in protective functions of internal audit.

The scope of internal audit system in the government offices include the following points:-

- Operations are conducted effectively, efficiently, and economically.
- Throughout the department's activities it can demonstrate good governance.
- The audit will be carried out in accordance with applicable professional standards and included such tests and controls.
- Strengthening of financial management system.

V. LIMITATIONS OF INTERNAL AUDIT SYSTEM.

Internal audit plays significant role in improving performance of a company. It helps to reduce contingency factors in the departments. It also provides tools to increase efficiency and productivity but

like everything, we know the each coin has two sides, there are many advantages of internal audit system it has also limitations too.

Time consuming:- internal audit system consumes a lot of time to perform all activities. The auditor has to verify each and every documents to provide correct result. Time is the most precious, though much time spent in internal audit system.

Much expensive:- To provide effective result, to evaluate and examine all the activities, department has to appoint enough qualified auditors so that they will provide measures to sort out all barriers and methods to solve these obstacles. So amount incurred to give salary to these auditors.

VI. RESEARCH METHODOLOGY

An important part of the research activity is to develop an effectiveness research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. The given information has been collected from both primary and secondary data.

Primary data :- The primary data has been accumulated for this research by personally meeting to chartered accountant and asked internal working of the department. By taking suggestions, discussed some problems presented data like pie-chart. The data has been collected through structural questionnaire and personal interviews of executives of the companies.

Secondary data :- The major portion of data has been collected from annual record departments publications, newspapers, journals, magazines, unpublished Ph.D thesis, different websites, books, etc. finally all the information and data obtained are analyzed and important interferences have been drawn from them.

VII. HYPOTHESIS OF STUDY

The study of internal audit is very effective and essential in every department even though it is private or public department. This study shows hypothesis on the study of an effective internal audit system in government departments the state of Maharashtra.

Hypothesis.

H1:- The quality of internal audit has positive effect on the effectiveness of internal audit.

H2:- Internal auditors have accurate and up-to-date data about internal audit.

H3:- The effectiveness of internal audit has positive effect in government department in the state of Maharashtra.

VIII. SAMPLING DESIGNING:-

Sample refers to the numbers of items to be selected from the universe. Sample is smaller representation of a large unit. In order to carry out the current research work convenient sampling was used.

Sample size:-

- Size of the sample should neither be too less, so as to limit the observations, nor too big, so as to become unmanageable for the audit term.
- Sample size of records to be audited composed should be of at least 10% of total records for meaningful audit. However, the proportion mentioned is for indicatory purpose, it may differ according to the quantum and risk factor of the activity involved.
- Records which are separable by time duration should be sampled accordingly.

IX. TOOLS FOR DATA ANALYSIS AND INTERPRETATION:-

Tools used for data collection.

- Simple percentage
- Point analysis
- Rank analysis
- Chi-square Test
- Anova.

There are 47 government departments in the state of Maharashtra. Out of 47 government departments 13 departments have been taken for current study.

Usually internal audit is very essential for each and every department, and it is used for each department to come to know the information and work as pre-determined goals and department is successful to enforce new policies and acquire desired results.

Internal audit implementation in government departments in the state of Maharashtra = 47 Government Departments.

Universal Sample = 47 Departments

Selected Sample = 13 Departments

Sample selected 28% approximately of the universal sample.

Sr. No.	Name of Government Departments	No. of Members	NO. of Respondents	Male	Female	Total
1	MH-TRANCO	100	20	12	08	20
2	MHPSE	80	15	07	08	15
3	MH-TOURISM	200	42	20	22	42
4	MH-GENCO	150	25	15	10	25
5	L.I.C.	160	15	08	07	15
6	G.I.C.	110	20	09	11	20
7	IBPS	175	20	13	07	20
8	S.S.C.	125	10	03	07	10
9	UPSC	205	22	14	08	22
10	DRDO	100	18	08	10	18
11	Railway Recruit. Board	200	35	17	18	35
12	Department of Telecom.	175	30	21	09	30
13	MH-SRTC	120	28	15	13	28
	Total Respondents					300

Distribution of respondents according to gender wise in Government offices in the state of Maharashtra.

Final selected sample for the study = 300 Respondents.

X. Analysis and Interpretation:-

A. Age Group

Following table shows age wise distribution of the respondents.

TABLE - 1
Age Wise Distribution of Respondents.

Age Group	Number of Respondents	Percentage (%)
Below 20	36	12
20-30	51	17
30-40	90	30
40-50	108	36
Above 50	15	5
Total	300	100

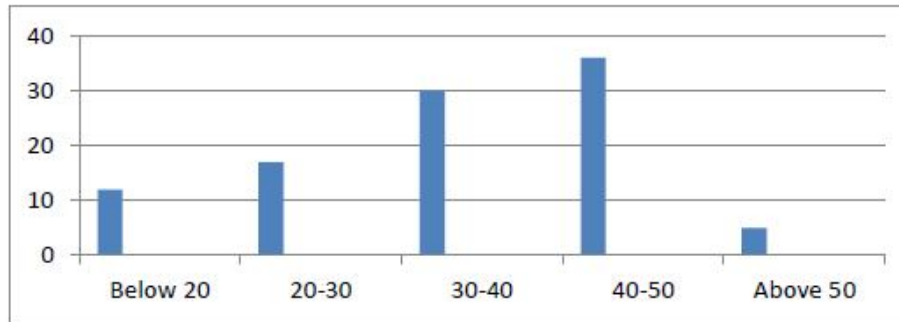
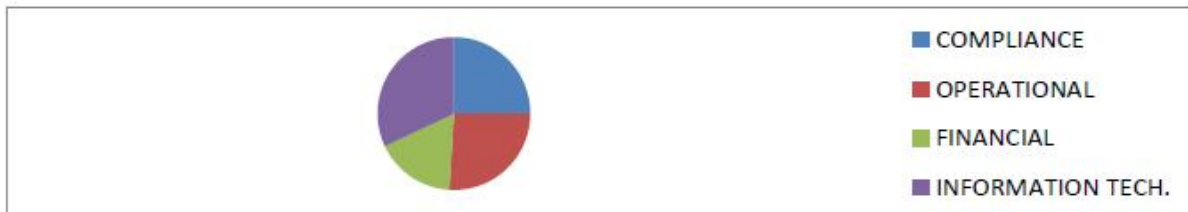


Table 1 and Graph show age wise distribution of respondents of internal audit system in government departments in the state of Maharashtra. Table shows 36% of the respondents are between the age group of 40-50 years old. And 30% respondents belong to the age group of 30-40, whereas 17% respondents are in the category of 20-30 of age group. There are least percent i.e. 5% respondents belong to the age group of above 50.

B. Awareness about internal audit system in Government departments in the state of Maharashtra.

TABLE -2

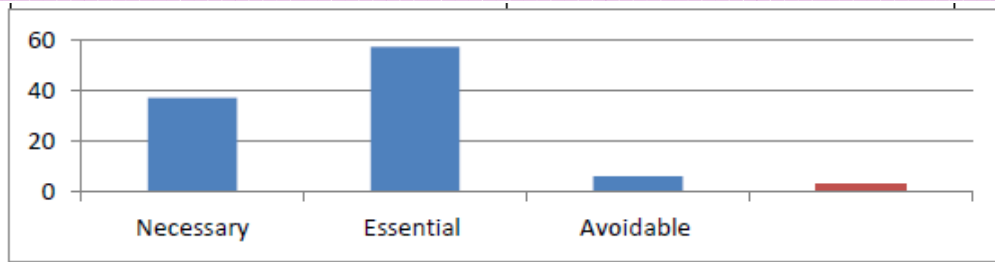
Terms of Internal Audit	Number of Respondents	Percentage (%)
Compliance	75	25
Operational	78	26
Financial	51	17
Information Tech.	96	32
Total	300	100



In above given Table VI and graph have given information about the terms are involved in internal audit system in government departments in the state of Maharashtra. The respondents are related with the term compliance i.e. 25% out of 300 respondents. Whereas 26% respondents do the work of operational terms to regulate the internal activities. 17% respondents carry the work of financial department and 32% respondents work in Information technology to change and update new software to do internal audit effectively, accurately and within time.

C. Opinion About Internal Audit in Government Departments in The State of Maharashtra.

Opinion About Internal Audit	Number of Respondents	Percentage (%)
Necessary	111	37
Essential	171	57
Avoidable	18	6
Total	300	100



The given table VII and graph highlight the opinion about internal audit. It helps to understand the opinion of different respondents, whether internal audit is necessary, essential, or avoidable. 37% respondents have given their opinion that internal audit is necessary. While 57% respondents tell that it is an essential to get better result and only 6% respondents say there is no any need of internal audit system as it is time consuming, and also an expensive etc.

I) Purpose of Internal Audit.

Role of Internal Audit	Number of Respondents	Percentage %
Evaluation	72	24
Improvement of Risk Management	78	26
Control	81	27
Governance Process	69	29
Total	300	100

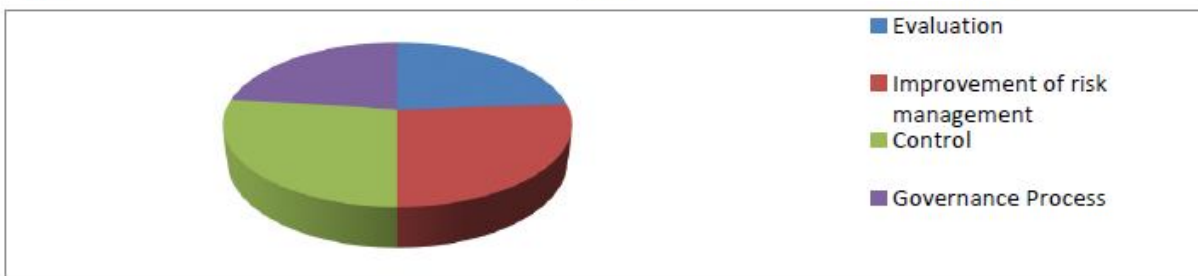


Table IX and Pie-chart show the purpose of internal audit system in government department in the state of Maharashtra. 24% respondents agreed and said that internal audit is used for evaluation purpose, whereas 26% out of 300 respondents have suggested, it has proved for the improvement of risk management. The greatest proportion of respondents i.e. 27% it is considered that, it is for control, because control is the last function of management, 23% respondents agreed to say that it is for the purpose of governance processes

Calculation of standard deviation and mean of respondents according to age wise.

Formula :- Mean = $x + \frac{\sum dx}{n}$

Table - XI

Sr. No.	Age Group	No. of Respondents	dx (x=90)	dx ²
1	Below 20	36	-54	2916
2	20-30	51	-39	1521
3	30-40	90	0	0
4	40-50	108	18	324
5	Above 50	15	-75	5625
N=5			$\sum dx = -150$	$\sum dx^2 = 10,386$

Mean = $90 + (-150)/5 = 90 - 30 = 60$

Implication for effectiveness of internal audit system in government department in the state of Maharashtra.

Internal audit is very essential in each and every research study. It has proved by the given research study. Our studies have implications for the effectiveness of internal audit from the perspective of communication of the risk warnings. It is not our aim to issue a recipe to the internal audit effectiveness, but we give some recommendations to internal audit that could positively contribute to the internal audit effectiveness.

Internal audit system in government in the state of Maharashtra, it is useful for the attainment of pre-defined goals. It helps to find out weak point in an organization. An internal audit system is a key building block to an effectiveness quality management system. It is required as part of management responsibilities as indicated. It can provide key information to identify problem areas or prevent issues.

HYPOTHESIS TESTING

- **H1 :-**As per the first hypothesis “ The quality of internal audit has positive effect on the effectiveness of internal audit.

To prove this hypothesis we use method of correlation. There are two methods of measuring correlation between two variables.

- 1) Diagrammatic Method.
- 2) Mathematical Method

Here by using Mathematical Method this hypothesis is analysed whether it is approved or not.

Awareness about Internal audit system and purpose of internal audit system in government departments in the state of Maharashtra. Variables:- Let the variable of Awareness of internal audit be X. And purpose of internal audit system be Y.

Table - XII

X	75	78	51	96
Y	72	78	81	69

Preparation Table

X-series	dx (x=51)	dx ²	Y-series	dy (y=81)	dy ²	dx dy
75	24	576	72	-9	81	-216
78	27	729	78	-3	9	-81
51	0	0	81	0	0	0
96	45	2025	69	-12	144	-540
n=4	∑dx= 96	∑dx ² =3330		∑dy=-24	∑dy ² =234	∑dx dy=- 837

Applying Formula

$$r = \frac{\sum dx dy + n - (dx)(dy)}{\sqrt{\sum dx^2 * n - (\sum dx)^2} \sqrt{(\sum dx)^2 * n - (\sum dy)^2}}$$

$$r = \frac{-837 + 4 - (96)(-24)}{\sqrt{3330 + 4 - (96)^2} \sqrt{234 + 4 - (-24)^2}}$$

Answer = -0.62

There is negative moderate degree co-relation between x and y series.

Calculate probable error

$$P.E. = 0.6745 * \frac{1-r^2}{\sqrt{n}} = 0.6745 * \frac{1-(-0.62)^2}{\sqrt{4}} = 0.2076.$$

Table - XIII
CHI-SQUARE TEST

H2 :- The quality of internal audit has a positive indirect effect in government department in the state of Maharashtra.

Frequency of adopting internal audit and opinion about internal audit in government department in the state of Maharashtra.

Variables to be taken opinion of respondents = Necessary (111), Essential (171), Avoidable (18)

Variable to be taken frequency of adopting IIA = Quarterly (27) , Halfly (87), Yearly (45).

Applying Formula

$$\chi^2 = \sum \frac{(O-E)^2}{E} \text{ Ans} = 51.1$$

Degree of freedom

$$D.F. = (c-1) (r-1) = (2-1) (3-1) = 2$$

The value of degree of freedom 2 is 5.99 and it is less than Chi-square.

Table -XIV

H3/H4 :- The effectiveness of internal audit has positive effect in government department in the state of Maharashtra.

Two Way Anova (Multi Anova Test)

It is calculated according two factors or two criteria. The variables are taken from table 2 and 6 Educational Qualification and opinion about effectiveness of internal audit system in the state of Maharashtra.

Educational Qualifications	Necessary	Essential	Avoidable	Total
School level	22	41	21	84
Diploma	17	27	29	73
Degree	15	28	18	61
Professional	38	22	22	82
Total	92	118	90	300

Calculation Table

Sources of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	Ratio of F
Between the Columns	SSC =174	$\mu = (C - 1) = 2$	$MSC = \frac{SSC}{(C-1)} = 87$	$MSC / MSE = 0.89$
Between the Rows	SSR = 3.87	$\mu = (R-1) = 3$	$MSR = \frac{SSR}{(R-1)} = 1.29$	$MSR / MSE = 0.01$
Residual of (or) error	SSE= 584.13	$\mu = (c-1) (r-1)$ $2*3 = 6$	$MSE = \frac{SSE}{(C-1) (R-1)} = 97.36$	
	SST = 762	$\mu = n-1 = 11$		

Applying Multi Anova Test we get answer F value for $\mu_1 = 6$, $\mu_2 = 2$

$$F_{0.05} = 5.14$$

$$F \text{ value for } \mu_1 = 6, \mu_2 = 3 \quad F_{0.05} = 4.76$$

So the tabulated F value is 5.14 and the calculated value is greater than 5.14 there is significance difference between the Educational Qualification of Respondents and Opinion about the effectiveness of internal audit system in government departments in the state of Maharashtra.

Similarly the tabulated F value is 4.76 and the calculated value is greater than 4.76 i.e there is significance difference between the Educational Qualifications and opinion of Respondents.

FINDING:-

Effectiveness internal audit system in government departments in the state Maharashtra has proved very beneficial, it helps to reduce all crises which arise in the departments. It builds the organization capable to face all contingency which may generate in future because of several reasons.

Internal audit plays a vital role because internal department works properly then it will create a good image status of the department. If department wants to provide best services for the welfare of the society, it will be possible only when proper co-ordination among all members in the departments.

Internal audit system helps to find out all weak points from department from top to bottom level.

As the doctor diagnoses the human body and comes to know what actual problem has a patient and proper treatment is given to patient by doctor, as internal audit to know what actual problem arose in department and proper steps will be taken to sort it out.

Internal audit system helps to enforce new policies and gain all pre-defined goals and control if something goes against the planned actions.

FINAL CONCLUSION :-

Conclusion has arisen after the complete study for the effectiveness of internal audit system in government department in the state of Maharashtra. Internal auditing serves as an important link in the government departments in the state of Maharashtra. It plays a significant role in monitoring offices risk profile and identifying areas to improve risk management. The goal of internal auditing is to improve departments' efficiency and effectiveness through constructive criticism.

It is the complete review of internal practices that show us a platform to go ahead and make changes in current work. This means suggest and gain pre-defined goals, so this study has proved beneficial for all the government departments and hypothesis also proved. In this study all objectives, graphs, tables and review show the positive reforms of effectiveness of internal audit and show path to utilize all the resources effectively and reduce stress, contingency and get the best result. Finally it has been said that this study is limited up to educational purpose only.

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