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Internal auditors' roles: From watchdogs to helpers and protectors of the top manager



Mélanie Roussy*

École de comptabilité, Faculté des sciences de l'administration de l'Université Laval, 2325 rue de la Terrasse, Pavillon Palasis-Prince, bureau 4244, Québec (Québec), G1V 0A6, Canada

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ABSTRACT

The purpose of this paper is to understand the governance roles of internal auditors in public sector organizations. An analysis of 42 in-depth semi-structured interviews conducted with experienced internal auditors working in public administration in Quebec indicates that internal auditors perform two key roles: a protector role, further subdivided into two roles, protective shield and keeper of secrets, and a helper role, also subdivided into two roles, support of organizational performance and guide. The analysis also shows that internal auditors have developed a nuanced conception of independence defined as 'grey independence' in order to perform their roles. Internal auditors consider that their primary role is to serve the top manager and the organization and that they must prioritize the top manager at the expense of audit committee members. Therefore, this paper contributes to the literature on internal auditor independence. Overall, the findings suggest that internal auditing is not the governance watchdog expected by the regulatory bodies since this is not the role performed by internal auditors.

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1. Introduction

As a result of the financial scandals of the early 2000s, the regulatory frameworks of governance and auditing in North America have undergone major reforms. Current regulations generally recommend sound governance practices aimed for the most part at providing reassurance to stakeholders (particularly investors and creditors) about the quality

E-mail address: melanie.roussy@fsa.ulaval.ca.

^{*} Tel.: +1 418 656 2131x3829.

of organizational governance. As a result of various reforms in this area, public sector organizations in Canada have been required to introduce an internal audit function (IAF). The result has not only been a change in the general context governing internal auditing and other governance watchdogs (such as the audit committee and external auditors). There has also been a marked increase in the range of duties and responsibilities performed by actors in the field (Rezaee, 2005). Current governance regulations are not designed to regulate the activities of internal auditors (Archambeault et al., 2008; Holt and DeZoort, 2009; Messier, 2009). As a result, the governance role of internal auditors and their relations with audit committee members (AC members) remain largely nebulous issues (Beasley et al., 2009; Davies, 2009; Gendron and Bedard, 2006; Mat Zain and Subramaniam, 2007; Sarens et al., 2009b), particularly in the public sector (Davies, 2009, p. 42).

Although very little is known about the implications of the reform of organizational governance in the private sector, a vast governance reform of the Quebec public sector designed as part of the state modernization project was launched in 2004, before becoming a reality in 2006. As is often the case with new public management reforms, the spirit of the governance reform of the Quebec public sector was largely inspired by similar reforms in the private sector.

In recent years, financial scandals have revealed the insufficiency of control systems and the lack of transparency on the part of certain organizations. In the wake of this situation, new management trends have emerged, including in the public sector, and internal audit can play a key role in taking these changes into account. (Auditor General of Ouebec, 2005, Vol. 1, Art. 4.02)

Despite being seen as a governance watchdog, the usefulness of internal auditing has yet to be demonstrated, since we do not know what role the IAF actually performs (Archambeault et al., 2008). Very little is known about the roles performed by internal auditors and about how internal auditors perform their duties. Public administration in Quebec provides a useful context for examining the roles performed by internal auditors working in public sector governance since the Quebec government justified the NPM reform by arguing that the IAF (viewed as a governance watchdog) will ensure greater transparency in public management and greater accountability among top managers. The plan for the modernization of the Quebec state is based on the assumption that the IAF is one of the key mechanisms for promoting respect for transparency, ethics and good governance values, the improvement of the quality of the services provided to citizens and the disciplined, diligent and profitable use of public funds' (Plan de modernisation de l'État québécois 2004-2007, section 2.2.4, p. 14). In this document, the Gouvernment of Quebec made the commitment to reinforce internal auditing in order 'to guarantee its independence and preserve its credibility' (Plan de modernisation de l'État québécois, 2004–2007, section 2.2.4, p. 14). The aim of the government was to reassure citizens on the sound management of the state in the wake of the financial scandals that affected Canada and the United States in the early 2000s. An analysis of the roles performed by public sector internal auditors will help to improve our understanding of the extent to which the trust seemingly granted to internal auditing by regulatory bodies and stakeholders is in fact justified. Therefore, by focusing on a governance reform occurred in the public sector, this paper contributes to this special issue in Public Sector Accountability and Corporate Governance of Critical Perspectives on Accounting (see Funnell and Wade, 2012; English, 2013; Habersam et al., 2013; Mutiganda, 2013; Saliterer and Korac, 2013; Vinnari and Nasi, 2013 for other critical papers on this particular research theme). More specifically, the purpose of the paper is to examine the extent to which the roles performed by internal auditors are congruent with regulatory expectations by addressing the following question: what roles do internal auditors play in the public sector, and what are the organizational, professional and individual factors that shape these roles?

To answer these questions, a field study was conducted in 13 public sector organizations in Quebec. 42 in-depth interviews were conducted among experienced internal auditors working in these organizations. The interviews were semi-structured and focused on interviewees' personal conception of their roles, the activities and assignments they perform as internal auditors, and the strategies they use to cope with role conflicts.

Based on data analysis using role theory (Katz and Kahn, 1978) and the 'model of coping with role conflict' developed by Hall (1972), it became apparent that a new typology of the roles performed by internal auditors was required. Internal auditors perform two key roles: a protector role and a helper role. First, internal auditors act as protectors to serve as a shield protecting the top manager, AC members and managers against possible obstacles or pitfalls. In the event of an inter-sender role conflict, the protection provided by internal auditors may favor the top manager at the expense of AC members and managers. The protection provided by internal auditors may also extend to the entire organization in the event that the organization is threatened by an external body such as the Auditor General of Quebec or by public opinion. Internal auditors also act as keepers of the secrets of the top manager against AC members and as keepers of the public secrets of the organization against the oversight body of public administration in Quebec or public opinion. Second, internal auditors also act as helpers. As helpers, internal auditors support organizational performance and provide guidance when a new administrative rule is implemented or a new management strategy or measure is adopted by the organization.

I argue that it is important not to view the IAF as a governance watchdog since the roles performed by internal auditors within the IAF are not based on a commitment to this principle. This argument is important for understanding internal auditing in a governance context and is a serious warning for the relevant regulatory bodies: internal auditing is not viewed as a governance watchdog by internal auditors and, based on the roles performed by IAF professionals, it would appear that the IAF does not fully perform the governance role expected by regulatory bodies. The analysis also indicates that internal

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