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"Contribution of internal audit in the achievement of corporate goals"

A Case of Sweden and Pakistan

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Abstract

Title: “Contribution of Internal Audit in the Achievement of Corporate Goals”

Key Words: Internal Auditor, Role and responsibilities, Corporate Goals, Legislation Background, Audit Committee.

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Tutor: Karin Brünsson

Problem: At the end of the 20th century, the Enron, WorldCom and Xerox scandals showed that there was lack of internal control in the organizations. All of these firms portrayed sound financial positions but scandal comes due to insider trading, illegal loans and recording losses as earnings. The needs of strengthened internal control system were desired to prevent such losses in future.

Purpose: The purpose of this study is to investigate how internal audit contributes to the organization goals.

Delimitations: The audit department depends on the type, size and the context of the company that employ them. In order to focus on one type of organization, we chose to study the case of two universities.

Methodology: This explanatory research is conducted by using qualitative method. Data collection includes annual reports of Peshawar University, internal audit reports of universities, Karlstad University online sites, relevant scientific articles, research books and interviews.

Conclusion: An internal audit contributes (indirectly) in the achievement of organization objectives and can also improve organization’s efficiency.
Acknowledgement:

We want to thank the Almighty God who gives us the knowledge and power to pursue our education up to this level.

We want to thank everyone who helped us during this study and without whom this study work could not be undertaken.

 Especially, we want to thank our Supervisor, Karin Brünsson for her countless guidance, advices and constructive comments throughout the course. We also want to thank all the interviewees who took time to answer to our questionnaires and interviews.

Finally, we would also thank our family for their support and patience during this study.

Shah Saud            Nathalie Marchand
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<tbody>
<tr>
<td>AGP</td>
<td>Auditor General of Pakistan</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accounts</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DDOs</td>
<td>Drawing Disbursing Officers</td>
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<tr>
<td>ERM</td>
<td>Enterprise Risk Management</td>
</tr>
<tr>
<td>E&amp;Y</td>
<td>Ernst and Young</td>
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<tr>
<td>FATA</td>
<td>Federally Administered Tribal Areas</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GFR</td>
<td>General Financial Rules</td>
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<td>IAD</td>
<td>Internal Audit Development</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IESBA</td>
<td>International Ethics Standards Boards for Accountants</td>
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<td>IFAC</td>
<td>International Federation of Automatic Control</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>IIARF</td>
<td>Institute of Internal Auditing Research Foundation</td>
</tr>
<tr>
<td>IPPF</td>
<td>International Professional Practices Framework</td>
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<tr>
<td>IRGK</td>
<td>Internrevisionens Rapport Granskning av Kursvärderinga</td>
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<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>KAU</td>
<td>Karlstad University</td>
</tr>
<tr>
<td>KPK</td>
<td>Khyber Pukhtunkhwa</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>PPRA</td>
<td>Public Procurement Regulatory</td>
</tr>
<tr>
<td>RDS</td>
<td>Revisionsrapport Doktorander, Slutversion</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>RE</td>
<td>Revisionsrapport Examination</td>
</tr>
<tr>
<td>RRPS</td>
<td>Revisionsrapport Projektredovisning Slutversion</td>
</tr>
<tr>
<td>SECP</td>
<td>Security of Exchange Commission of Pakistan</td>
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<tr>
<td>SOU</td>
<td>Statens Offentliga Utredningar</td>
</tr>
<tr>
<td>SOX</td>
<td>Sarbanes Oxley Act</td>
</tr>
<tr>
<td>SRRDA</td>
<td>Slutversion and Revisionsrapport Diariet Slutversion</td>
</tr>
<tr>
<td>UOP</td>
<td>University of Peshawar</td>
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1. INTRODUCTION

This chapter provides an imminent into the research background, research question and also sets the tone for basic ideas and arguments for the study. This chapter explicitly covers the topics, research background, problem statement and discussion, purpose of the study, research question and limitations of the study.

1.1 Research Background

An essential condition for the survival of a company or more generally of an organization lies on the ability of its members to act reliably and efficiently to achieve the objectives of the organization. The substantial coordination of behavior can be achieved in numerous ways. In a very small business, the manager can verify directly that the tasks are performed on the way he thinks which is suitable. But the supervision of the manager and the mutual adjustment among various actors Mintzberg, (1982) are quickly becomes insufficient when the number of the firms increased. However it may be wished to maintain these ways of controlling but it would only be applied to the part of the organization. Therefore it is necessary that management put in place mechanisms to fill the gap in supervision.

Business performance is a major concern these days due to importance of the global competition. One factor of this performance lies on the ethical and responsible behavior of its performers. But at the end of the 20th century, the Enron and WorldCom scandals show that there was a lack of control in organizations (Bertin, 2007).

Following these financial scandals, actions were taken. It has become essential to provide an ethical control in the interest of leading to better take into account the content of internal control, in order to overcome the weaknesses of economic and legal support. In a common interest, ways to measure the impact of moral decisions have been found and the company must be able to justify its activities (Ethical norms and values) this control may be performed by the internal audit (Mercier 2000).

Organizational performance can also be "the ability of an organization to identify and implement appropriate strategies within the framework of the aims it pursues" (Bouquin, 1997). The objectives are vary; organizations may want to become the largest company in the world or to remain a successful specialized business, or even be best able to achieve the goals it has set. Once the purposes
have been defined, success depends on the ability to define appropriate strategies and to implement them. Organizational arrangements must ensure the level of performance in both economic and strategic scopes and we call internal control the combination of such devices. It is necessary to periodically test the effectiveness and suitability of a particular aspect of internal control. Auditing is the process of studying and evaluating internal control and certain of its aspects, as well as its expected performance. The ensuing result may help to determine the effectiveness of the company. It is something important because the challenges of every business day are for the companies to be competitive so as not to be forced out of the market.

1.3 Problem Statement and Discussion

As organizations pursuing objectives in an economic environment, the company is the meeting place of a wide range of stakeholders interested in its performance. They can be the directors of the company as shareholders and other third parties. This complex situation has prompted us to seek to understand more precisely “The contribution of internal audit in achieving corporate goals”.

Similarly, our experience as foreign students at Karlstad University has shown us that there are many differences in management and auditing in different countries and company cultures. After years of education focused on finance and accounting, we thought it is useful to assess our knowledge while we were preparing to enter the employment market.

In this study we want to contribute in the field of management so that it is a basic study for our successors, and that it may also allow financial and management professionals, and the CEOs to have a clearer reading of the situation of the company. We believe that our modest contribution will enrich knowledge in finance and especially of internal audit. The first interest of this thesis can be an economic one. In fact, if internal audit can contribute to corporate goals, it can also help employees keep their place in the company the state to consider recovery of taxes, financial institutions take steps to recover their debt, the shareholders or partners should ensure the profitability of their investment. It could help all the actors of the company in every level to make the company get better and themselves in the same way. Internal audit is a method of controlling which allows different business partners such as shareholders, personnel, financial institutions the state to ensure the quality and reliability of the information provided.
In a second way, there is a social interest the internal audit is also an interest of social order which is to ensure that managers run their activities in an effective, efficient, and prudent way, to provide an independent assessment of the risk management process, control and governance, and make findings aimed at improving efficiency.

1.4 Purpose of the Topic

Internal audit is an evaluation function available to an organization to examine and appreciate the proper functioning, consistency and effectiveness of its internal control. To this end, internal auditors should review the various activities of the organization, measure the risks and the arrangements put in place to control them, ensure performance in carrying out assigned responsibilities and make recommendations to improve its security and increase efficiency (IFACI, 1998). Internal audit is one of the essential mechanisms of the internal control system. No company can disregard it, even partially, without losing at the same time control of a key to its survival. A vital member of company management, the internal auditor is a party to an audit charter defining his independence. When the internal audit department does not meet the expectations of senior management, it should take adequate steps to upgrade it (IFACI, 1998).

In any event, the company must maintain control of the implementation process of internal audits. This usually results in the supervision of the monitoring process of recommendations. In this thesis, we seek to know who is responsible for drafting the recommendations, how they are doing so and how they are taken into account. This is a part of an integrated service to the structure of an organization so that the internal audit function is more likely to render better services to the organization.

1.5 Research Questions

We seek to know through this study of how the audit enables the company to achieve its objectives. It concerned with the main objective of our research and we want to make further suggestions to the contribution of internal audit in achieving corporate goals.

In summary, how can internal audit help the company to achieve their goals? The main objective of this research is to demonstrate the role of internal audit in achieving corporate goals.

The sub research questions include:
• Is internal control can be used as a tool to make an organization more effective?

• Is internal audit a mechanism to achieve organization goals?

These questions will generate a research hypothesis which will revolve around our work. The main hypothesis that awakens our consciousness is that which states: “Internal Audit plays a role in achieving corporate goals”. 
2. RESEARCH METHODOLOGY

This chapter will provide the reader the various instruments and procedures which are used during gathering of data from Karlstad University (KAU), University of Peshawar (UOP) and from Security of Exchange Commission of Pakistan (SECP) to reach to the research study objective. This chapter includes, research approach, data collection method, questionnaire design, interviews, validity and reliability of data, and data analysis method.

2.1 Research Approach

The main purpose of this thesis is to understand how auditing contributes to the achievement of corporate goals. To make this possible we must understand the influence of the audit. Data will be collected through qualitative approach using open ended question because this is a method that generates and analyzes descriptive data, such as the written or spoken words and individual's behavior observations (Taylor and Bogdan, 1984). The empirical method is based on observation, documentation and interviews. The qualitative method with theoretical research will allow us to answer our questions and get our objective.

Primary data is collected through open ended question from both universities, Karlstad University (KAU) in Sweden and also The University of Peshawar (UOP) in Pakistan audit departments. Secondary data have been collected from different online sources. We have also used courses that have been delivered but also we searched on various websites and frequented libraries to enrich our knowledge of the theme.

2.2 Data Collection Method

There are two different kinds of data primary and secondary. The primary data are not yet available to get it must be collected and treated. Secondary data are already existing data and are accessible to all (Pelleman, 1999). Secondary data have many advantages; the main advantage is the ability to become familiar with the study without raising too much new data. Therefore it enables targeting and accumulation of knowledge. Furthermore, in preparation for a possible collection of primary data, secondary data enable the researcher to specify the research problem and the research options (Gauthier, 2009).

For this thesis, we use two data sources primary and secondary. Secondary data have allowed us to build our theoretical part. Secondary data have allowed us to
build our theoretical part. We consulted books and newspaper articles at Karlstad university library or on the internet. We also based our research on articles and theses on the subject and collected audit reports that are secondary data. These reports guide us in the primary data collection. Furthermore for empirical study, we used primary data. They are generally derived from open ended questionnaires.

There are several methods for collecting primary data such as focus groups, observation, personal interviews and questionnaires (Ibnlkhayat, 2005). For our research, we used two of these methods individual interviews through open ended questionnaires.

2.2.1 Questionnaires

The questionnaire survey is one of the most common methods of data collection the most common. Its aim is to produce knowledge by responding accurately to the objectives and questions for research. Based on the problem and research questions, the questionnaire is the support which embodies the communication relationship between the person who collects the information called the investigator and the one who answers called the respondent (Ibnlkhayat, 2005).

The open-ended questions have vocation to let the respondent answer freely. This type of questions can generate a lot of information. This is interesting if the sample of respondents is small (Roche, 2009). In this thesis, we sought to obtain information on the monitoring of audit reports and the evidence of auditor's targeted universities. We have a small number of respondents that’s why we choose questionnaire with open questions.

The advantages of open-ended questions are the diversity and freedom which they leave to the respondents. This enriches the collected data gives confidence in the respondent because he feels free to answer what he wants. However, the combination of post answers may be a problem made by the expression of the respondent. Actually, loss of information may exist if the people interviewed have difficulty expressing themselves or if they lack eloquence in their remarks (Ibnlkhayat, 2005).

A questionnaire can be customized or standardized (Bühlmann, 2007). In order to reach a group of people, we must standardize the questionnaires. This means it is a "standard questionnaire" with general questions. We have established this type of questionnaire as part of the study on monitoring recommendations. However, to achieve our objectives we opted for customized questionnaires for the members interviewed in relation to the audit department.
### 2.2.2 Interviewees

Respondents were contacted via three ways by phone (Skype), email and direct interview. The respondents from KAU were contacted by email because of their busy schedule of work and the UOP respondents were contacted through email and phone. The persons to testify on the status of recommendations issued in previous internal audit reports were also contacted by email.

#### Table # 01 Analysis of Questionnaire Administered:

<table>
<thead>
<tr>
<th>Respondents to Questionnaire</th>
<th>No. of Questionnaire Administered</th>
<th>No. of Questionnaire Received</th>
<th>Responses in % age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit Staff</td>
<td>8</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Non Audit Staff</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
</tbody>
</table>

The questionnaires were emailed to both universities respondents and in feedback we received different answers. We also send same questionnaire to the SECP to know about their internal audit staff replies concerning the research question.

We divided questionnaire into two different parts, the first part were consists on the main questions related to the research question, while the second part were consist on recommendations in the internal audit reports.

Total 12 numbers of questionnaire administrated to both audit and non audit staffs and in feedback we received 9 positive replies. The responses rate from both audit and non audit staffs were 75% each.

### 2.3 Validity and Reliability of Data

The concepts of reliability and validity are essential for assessing the quality of survey data. The obvious hazard of informal approaches lies in obtaining biased or incorrect data. Key informants who would normally be interviewed for this type of study may share a bias or a particular point of view. It may be difficult for the researcher to meet other people that could express different perspective (Dillon and Hardaker, 1996).

Reliability is based on consistency of observation and replication of results. The measures relating to internal reliability are designed to ensure a maximum that other researchers using the same data would come to similar conclusions, those relating to the external reliability are designed to ensure that a third researcher following the same approach would get the same results by observing the same or similar environments (Gagnon, 2005).
2.3.1 Validity

According to Gagnon (Gagnon, 2005), for the validity to be confirmed, the research must meet several criteria. The first point to avoid is that as it is not anonymous in direct observation, it is possible that the person observed changes its behavior because he knows that he’s observed knowing. To be sure that it was not the case, we made everything to do it: the diversity of interviews, cross-checking data sources and the duration of the research allowed us to reduce this bias. It also requires that the observed reality is a construct of the mind as a collection of concrete phenomena.

2.3.2 Reliability

Gagnon (Gagnon, 2005), furthermore describes that the reliability of several sources must be checked. The first criterion is that the use of transcripts is concrete and specific. In this thesis each word was used in interviews being recorded in digital or writing formats. The other point is to respect raw data protection. The raw data is an accessible and identifiable in our references and appendices. They include the transcript of the audio recordings of interviews, questionnaires and the days of interviews. Another important point concerns the position of the researcher. Reliability also includes a description of the selection process of respondents. Those interviewed were selected by the research group, it was all those affected by the elements of our work. Finally, the last item is the characteristics of the study site. Data were collected at the universities and targeted group were KAU, UOP and SECP.

2.4 Limitation of the Study

This research study would be subjected to some limitations, which the researchers faced during their research study. The limitations are:

- Due to confidential reasons we did not received both universities internal audit reports on time.

- The internal audit department of the Karlstad University was small in size and therefore various types of interviews were not collected.

- Compare to Peshawar University and SECP interviews, Karlstad University interview was too short and ESV did not reply to the questionnaire.
• The Swedish language of the Karlstad University internal audit reports would be a restrictive factor during study.

2.5 Disposition of the Study

Chapter #1 Introduction

The first chapter would provide the guidance to reader regarding the research topic, contribution of internal audit in corporate goals, and the problem background will provide the important information regarding further study.

Chapter #2 Research Methodology

The second chapter would provide the reader information about the research topic and some other topics namely; research approach, data collection method, questionnaire design, interviews, validity and reliability of data, and data analysis method.

Chapter #3 Theoretical Background

The third chapter would provide the reader information about the previous researcher’s studies, theories and literature related to our study. Literatures consist on reports, articles, journals, books and websites, would be used to fulfill our study purpose.

Chapter #4 Empirical Study

The fourth chapter would provide the reader the empirical findings of the study. It also provides information regarding data collected from interviewees and make also basis for our prior studies.

Chapter #5 Analysis and Discussion

The fifth chapter would provide some argumentation about our study. Analysis is based on literature review and on empirical data to provide solid answers to our research questions.

Chapter #6 Conclusions

The sixth and the finalist chapter would provide information regarding the fulfillment of the research objective. This chapter gives answers to our research questions and also provides recommendations and suggestions for further studies.
3. THEORETICAL BACKGROUND

This chapter will provide the readers an imminent into prior studies that have been conducted on the internal audit contributions. It will provide the reader the important concepts related to our study and will also make the backbone for our research analysis. The aim behind this study is to increase the understandability of the basic concept related to the internal audit contribution and other concepts.

3.1 Audit - A Historical Perspective

The term “audit” is etymologically from the Latin word “auditus” meaning “a hearing” (Fant, 1994). FAR (1991) describes that auditing is an old science and in China during 2000 BC, auditors were well independent and esteemed officials. In the 16th century auditing and accounting were merely concerned with governmental and family issues, two scribes (Sofer) were used to prevent frauds and defalcations and to keep independent records of similar transactions. Another objective of auditing was to periodically record inventories and to ensure accuracy in the accounting records and reporting (Brown, 1962).

During the Industrial Revolution it was usual for the owner to disengage from the capital investment and management of the business; due to this some important changes in the attitude towards auditing were made (Woolf, 1997). Further, Brown (1962) described that the first change in attitude was realized due to a general apprehension that there was a need for standardized system of accounting to accomplish both fraud prevention and accurate reporting. The second change in attitude was realized due to the need of an independent accounts review of the business. A thorough inspection of the financial records was the guideline and the generally accepted approach.

In the middle of 19th century the proprietor of the company frequently used to check the production areas in order to verify the financial data of the company. Those days’ audits were expensive and incompetent, because of complete assessment of all the transactions and financial statements. When businesses were so large in size a systematic verification of the recorded transaction may not be used all the times. This led to an upgrade of the accuracy and also to prevent frauds in business and in result the accounting system improved (Brown, 1962).

3.2 Concept- Internal Auditing and Internal Auditor

The Institute of Internal Auditing (1999) presented a broad definition of internal auditing as; “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”. According to the Glossary to the IIA standards differentiate independent and objectivity concepts as; “Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity, such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.” And, “Objectivity: An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.”

According to the Institute of Internal Auditor Research Foundation (2008) an internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. Today’s business world, internal auditors plays key role in businesses. Internal auditors review organizational goals, processes and operations and provide professional advice to the management.

3.3 Qualification of Internal Auditor

The basic qualification, which is needed for an internal auditor depends on the judgment of the employer. Sometimes, internal auditors are qualified as qualified engineers, production engineers, sales persons, management personnel and accountants, so they have the relevant knowledge and experience of the operations of the company (Balkaran, 2008). Porter and Gowthrope (2004) describes that high qualification of internal auditors may be an excellent method to reduce the company performance gap. Internal auditors should need high education to understand the responsibility under the corporate law and to perform standard of work.

Harrington (2004) explained that an internal auditor preferably needs an accounting background and understanding of internal control, because of his or her involvement in appraising financial reports. Internal auditors in a company consist of experts who have wide range of skills and knowledge to recognize the bandwidth of the firm, their skills and knowledge vary. The expertise and background of information technology is also required for the business. Zhang et al., (2007) describes that accounting and financial background is required for
internal auditors. Moreover, most of the firms suggest financial experts on the audit committee board; greater audit committee financial experts have less internal control limitations. Further, Hirth (2008) describes that through the use of technology; internal auditors can achieve excellence leverage, audit coverage and can also achieve better validation.

3.4 Role and Responsibility of Internal Auditor

The basic role of internal auditing is to help management achieve company goals. It also provides assurance that management has implemented a satisfactory internal control system to prevent risks. In addition, internal auditing should provide internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels (IIA, 2011). The Institute of Internal Auditors (2000) issued the internal auditing responsibilities, the section related to objectives stated, “The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review (p. 3).”

Sawyer and Vinten (1996) described benefits of internal auditing assistance, which provides action and judgment basis to managers by reporting, performance and internal control limitations and recommendations for improvements, for solution of business problems providing counsel to board of directors and managers for its solution and providing useful, timely and reliable information to the management. Furthermore, the statement also mentions the internal auditor services types and activities kind achieving the overall objectives. The internal auditor appraises the firm operations as planned and to determine the outcomes with the established objectives and appraises the internal control system adequacy and effectiveness of company. The basic purpose to check the adequacy of the internal auditing of the company is to determine about the reasonable assurance provision that the company objectives met efficiently.

According to the Institute of Internal Auditing (2011) definition, internal auditing can appropriately be classified into three different areas; internal control, corporate governance and risk management. According to the Institute of Internal Auditing (2009) internal auditors play a key role in risk management and providing consultants and assurance services to the executives. First, the Institute
of Internal Auditors issued “The Role of Internal Auditing in Enterprise Wide Risk Management (ERM)” as a direction to the internal auditors that they should play a role in the enterprise risk management procedure. Secondly, related to consulting services the Institute of Internal Auditing report describe four basic activities for internal auditor to be accountable, which are; coordinating Enterprise-Wide Risk Management activities, maintaining and developing the Enterprise-Wide Risk Management framework, facilitating the identification and evaluation of risks, and for the board support developing of risk management strategy.

3.5 Internal Audit as Mechanisms

3.5.1 Internal Audit as a Risk Management Mechanism

Value addition to the entity can be given by the internal auditors. It can be done by giving assurance that its exposures regarding risk are properly managed and understood (Walker et al., 2003; Leithhead, 1999). Internal audit need to play a vital role in monitoring the risk profile of a company. Moreover, it should identify areas in order to better the risk management procedures (Lindow and Race, 2002). An internal audit can be helpful for organizations in identifying and evaluating risks and putting the profession at the front line of the risk management (Walker et al., 2003, p.52). Further, Kwan (1999) describes that within a company, development of a risk based culture is required in order to build a strong organizational commitment for risk management. This should result in the development of an integrated risk management framework.

3.5.2 Internal Audit as a Control Mechanism

The management and directors of an entity adopt the process of internal control. This process gives assurance about the achievement of the entity’s objectives regarding financial reporting, operations and compliance with the regulations (COSO Report, 1992). External auditing standards (Such as: AUS, 402 and ISA, 400) shows that the control environment can be strengthen by using effective internal audit function by:

- Review of the internal control structure of a firm,
- On behalf of the management; monitoring different operations regarding the information system and control procedures (AUS 402 19-d).
The asymmetry of information between division managers and senior managers result (San. M and Govindarajan, 1984; Fama, 1980) in weakening the ability of the senior managers to firmly control operations. The reason for this problem is the presence of internal agency costs (Ettredge et al., 2000) which occurs between the upper management and the lower level staff because of the incentive’s differences. So the use of strong internal controls system including the internal audit for reviewing and monitoring mechanism. So keeping this in mind, senior management can delegate their responsibilities in accordance with the internal control to the internal audit function (Chambers, 1981; San. M and Govindarajan, 1984).

3.5.3 Internal Audit as an Internal Governance Mechanism

From the agency point of view, the role of strong governance within a firm lays by aligning the management interests with the stakeholders in order to minimize agency costs (Cohen et al., 2002). An independent board chair, independent directors on the board, internal audit, external audit and effective audit committee are different corporate governance mechanisms used to monitor behavior of the management (Cohen et al., 2004; Davidson et al., 2005). According to The complex interactions within these governance mechanisms are like a “corporate governance mosaic” (Cohen et al., 2004, p.88). But problems between independent and executive directors due to asymmetry information shows internal audit more likely as a complementary mechanism. This is supported by determining evidences from the researches examining the relationship between audit committees and internal audit (Scarborough et al., 1998; Carcello et al., 2005; Raghunandan et al., 2001). This is in accordance with the IIA view about internal auditing; which helps organizations to improve and evaluate governance processes (IIA, 1999, 2004). So, positive relation between the internal audit function and a stronger audit committee can be expected because of their closely intertwined goals (Scarborough et al., 1998, p. 53). An effective audit committee can strengthen the internal audit function position (Verschoor, 1992; Braiotta, 1999) whereas a powerful internal audit function can result in enhancing the audit committee’s effectiveness (Bishop et al., 2000; Turner, 1999; NYSE and NASD, 1999).

3.6 Challenges of Internal Audit

Ahmad and Taylor (2009) describe that an internal audit should be an objective task and that it can compromise sometimes in the reporting line, where they required to report and review the operational areas. The internal audit should
have an independent role and this is a long term confront for the internal auditors. Internal auditors’ profession has received a new awareness due to the rise of corporate governance. Internal auditors should not subordinate their decision during an audit to management but they cooperate with them and accept boards of director’s judgment about management (Ahmad and Taylor, 2009).

Marco et al., (2006) further stated that the internal auditors required reinforcing their relationship with the board of directors and with audit committee. Internal auditors providing assurance should be the best achievement of objectives as well as independent, i.e. in terms of internal control, corporate governance and risk management. According to the study conducted by Marco et al., (2006) internal auditor’s actions will be used to new legislation, development and requirements. Internal auditor importance is growing due to their activities and their professions still need to be recognized within the firm. The complexity of firms increases due to huge business transactions, advancement in information technology and due to broad dynamic environment.

3.7 Corporate Goals in General

It has been implied on the basis of economic theory, that most of the firms are looking towards achieve their goals i.e. profit, but this view is not accepted in today’s business. According to Lilien and Kotler (1983), “Although profit in some firms is an overriding goal of the business, it is not the only factor that an organization considers when trying to decide among alternative plans of action. An organization is a complex hierarchal social system pursuing a variety of organizational and personal goals.” Further, Kotler (1980) describes that the common objectives of most of the companies are; to increase sale growth, profitability, innovation and diversification of risks. Stagner (1969) visited 125 huge firms and 125 vice-presents and he pointed that the goals of a firm is other than maximization of profit, i.e. cohesiveness of the management. His study showed that managerial cohesiveness is playing a key role in business decision making.

A proper set of goals can be used as a first point for a firm’s study which describes design (Gouldner 1959; Hall 1972). This is an important approach, because a proper set of goals represents efforts of a firm’s to deal with; dynamic, multidimensional, an uncertain environment and to properly state managerial activities (Baily and Boe 1976; King and Cleland 1979; Quinn 1977). Additionally, Osteryoung (1977) notes this approach that for the development of a realistic theory of firm, goal training is an important link. Though, some complex firms
normally follow more set of goals rather than single, among these most must be incidental (i.e. politically oriented statements) at different organizational levels (Connor and Bloomfield 1977). Further Lilien and Kotler (1983) stated that, “Generally the announced or published objectives of a company are of little operational help in choosing among alternative plans.” So, currently a firm set of goals are connected to the firm’s philosophy.

3.8 Link, Between Organization’s Goals and Internal Audit

Dittenhofer (2001) prescribed that an internal audit is to assist firms in achieving objectives. Further, Institute of Internal Auditors stated about internal audit that it, “helps an organization accomplish its objectives” (IIA, 2004). In the same way other literature has documented the internal audits role in the achievement of firm goals (see some examples as; Hass et al., 2006; Roth, 2003; Yee et al., 2008; Gramling et al., 2004).

3.8.1 Firm Performance and Internal Audit Effectiveness

The link between firm performance and internal audit could be an alternative method to evaluate internal audit effectiveness. Hermanson and Rittenberg (2003) were selected for a research to know the link between an organization performance and internal audit effectiveness. Further, Marx’s (1978) theory explained the suitable link between internal audit effectiveness and firm’s performance. The Institute of Internal Auditors (IIA, 1999(f)) presented a broad definition of internal auditing effectiveness and company goals: “. . . 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.” An internal audit is effective if it meets a goal which it is supposed to bring about. Sawyer (1995) states, “. . . internal auditor’s job is not done until defects are corrected and remain corrected.” Further Van Gansberghe (2005) explained that internal audit effectiveness; should be assessed to the degree of efficient and effective delivery of internal audit services, which improves demand for it. He also explained organization and government framework; conceptual framework; legislation, perception and ownership, improved professionalism and other factors related to internal audit effectiveness. An effective internal audit provides an independent analysis of systems and procedures and financial operating data for valuable recommendations in company.
Further, Bryer (1999a, b, 2006), Yee et al., (2008), Marx’s (1978) theory explicate investors persuasion on “surplus value” of assets and the function of designed control mechanisms to provide assurance and to achieve that objectives. This theory also explained internal audit’s function in firms and clarified the concept that internal audit is a value adding, forward looking service and not a compliance control mechanism. A sign of internal audit effectiveness is the growth rate of Return on Capital Earning (ROCE). Internal audits help in improving Return on Capital Earning (ROCE) quality, as reported by Gramling et al., (2004) Cohen et al., (2002, 2004) and through risk management, operational auditing improving its rates (Spira and Page, 2003), and by detecting fraud secure assets (Reghunandan and Mchugh, 1994; Coram et al., 2008; Yee et al., 2008).

3.8.2  **Economy Growth and Internal Audit Services**

The internal audit can help and improve the economy through consultancy services and through effective utilization of capital (Al-Twaijry et al., 2003; Yee et al., 2008). An internal audit can also play value adding role in government sectors. Furthermore, an internal audit also has the report authority to the board of directors about their management to enhance the management efficiency (Gramling et al., 2004; Yee et al., 2008).

3.9 Legislative Background: Sweden and Pakistan

3.9.1  **Legislative Background in Sweden**

FAR, (1991) describes that in Sweden in the 18th century the auditing concept developed, when the companies become large. After that in the 19th century the utilization of the audit in new companies was recommended. In the Companies Act of 1895 the significance of auditors was used but the definition was not used in the Companies Act of 1895 and 1910. During the economic crisis in 1930 auditing was needed to monitor and prevent frauds.

As “Kommerskollegium” (National Board of Trade) in 1973 made the supervision and examination of auditors and after that in the Companies Act of 1975 auditing become vital and auditing and accounting demands increased (FAR, 1991).

In Auditor Act of 1995, there was not a separate Act of auditing. To secure auditor independent the “Analysmodellen” (The Supervision of Public Accountants) was established and it is found and approved by the European
Commission. Sweden is the first country in the globe which is based on a model to accept laws and protected the independence of the auditor (FAR, 2002).

3.9.2 Legislative Background in Pakistan

After independence of Pakistan in 1947, Pakistan Railways used a formal internal audit function for the first time. At that time other government and semi-government organizations also started an inspection department. The role of these inspection departments resembled that of the internal audit role. After that the Office of The Auditor General was formed under the Pakistan 1973 constitution. The authority of the Auditor General was to audit expenditures and receipt of any public funds at any provincial and federal level, to audit receipts and expenditures. The social and political campaign against corruption led the society to transparency and accountability and for which internal auditing was suitable (Huma and M.Jamil, 2003).

In Pakistan in the few years internal auditors have been started in private sector of the organizations. According to the local government ordinance 2001, there are chief audit executives who control the internal audit function of all district level bodies. After that the securities of exchange commission of Pakistan issued a code about the internal auditor. According to this code all the listed companies with the three Pakistani stock exchanges must have internal audit functions. To improve awareness about the internal audit profession a number of Pakistan’s organizations, such as; The Institute of Internal Auditors, The Chartered Accountants of Pakistan and The Auditor General of Pakistan are arranging conferences and seminars. Pakistan is aware that the accountability and transparency needs and an improved quality management is the way to develop the internal audit profession (Huma and M.Jamil, 2003).

The Auditor General’s Organization of Pakistan is the prime organization in the state. Its objective is to insure transparency in the governments operations and public accountability. The Auditor General is appointed under the constitution of the country and his authority allows him to provide an objective as well as an independent evaluation of the governance process at both provincial and federal level (AGP, 2012.a).
3.10 The Code: Sweden and Pakistan

3.10.1 The Swedish Code

Around the globe to secure the accuracy of reporting various kinds of legislation have been adopted such as, Sarbanes-Oxley Act of 2002. The Auditing and Accounting scandals have shown the importance of applying stricter rules of corporate governance, accounting and auditing. With the aim to suggest measures on how to reinstate trust in Swedish business a committee “Förtroendekommissionen” was appointed in 2002 (Skog et al., 2004).

The Committee prepares Swedish Code of corporate governance and published on the April 21, 2004. The Swedish code also based on the “comply or explain” principle, it means that the code following companies may not want to comply with the rules but to elucidate the cause for not complying (Skog et al., 2004). The corporate governance debate shows the responsibilities of board of directors and the auditors, and how to strengthen the trust of financial reporting, internal control and the relation with the auditors. Audit committees are solving such problems and are obligatory in United States. The Swedish Code wants to use the involvement of Audit Committees in Swedish public companies. The Swedish code also regulates the board of directors and auditors relationship, that they have a meeting with the auditor each year (SOU, 2004: 46).

The Swedish Code are mainly related to the board of directors issue and concerning to the auditors are short, therefore to secure the independence of the auditor “Analysmodellen” and “European Union” recommendations are used. The Swedish Code sections concerning the reimbursement, auditor regulate election and it also concern with the auditors to be proposed by an election committee on behalf of the shareholders (Skog et al., 2004).

3.10.2 The Pakistani Code

For over a decade, the accounting and auditing scandals focus the international attention towards financial reporting and corporate accountability standards (Adrian Cadbury, 1992). The Sarbanes-Oxley Act of 2002 is a legislative milestone in the corporate governance history (SOX, 2002). The government of Pakistan has passed various forms of legislations to enforce the accountability standards; the legislature issues the corporate governance code to Security of Exchange Commission of Pakistan (SECP). The Security of Exchange Commission of Pakistan enforced the code and most of the corporations believed that it would be very expensive to comply with the code because of various difficulties during
enforcing the code. One of the basic and lawful problems felt by the corporations was lack of relevant expertise to enforce the code, some commentator believed that Code had “no utility to stakeholders” and was outdated in Pakistan (Khalil Ahmed, 2004). After all this the Security of Exchange Commission of Pakistan (SECP) appears and considerably revised the Code to help and harmonize capital market improvement process to facilitate even overseas shareholders and investors (Ibrahim Ali, 2006).

The basic function of an internal audit committee is to help the board of directors, while an external audit committee concerns the shareholders of the company (Ibrahim Ali, 2006).

3.11 Audit Committees: Sweden and Pakistan

3.11.1 Audit Committee: Sweden

In accordance with the proposed Swedish Code the board of directors is responsible for employing an Audit Committee. The Audit Committee should be made-up (at least) of three members of the board of directors and therefore the Swedish Code pursue on “comply or explain” principle. According to the Code at least one member of the Audit Committee must be independent towards the major owner and the committee has to be independent towards management and company (SOU, 2004: 46).

In accordance with the Swedish Code, the task of the Audit committee should be:

- To protect financial reporting quality, the audit committee needs to review the financial reporting important issues in the company. The committee needs to check the financial reports, to discuss internal control and other rules which can effect on the financial reporting and to discuss such issues in the shareholders meetings.

- The board of directors and auditors need to discuss the risk and internal control issues of the company and meet with auditors to educate on the audit. This pleasant cooperation should affect on the audit work and effectiveness of the company.

- Rather than auditing the audit committee must decides about other services for the company. The audit committee has to decide about services according to the Swedish practice and law, because the Swedish Code does not specifically mentions about allowed and not allowed services.
3.11.2 **Audit Committee: Pakistan**

The Security of Exchange Commission of Pakistan (SECP) has to apply the internal and external audits scope to evaluate company’s affairs from a lawful perspective (Ibrahim Ali, 2006). According to this respects, some proposal should be apply:

- The non-executive directors should be independent and professional lawyer. The Companies have to keep the appointed legal advisors pursuant to the Companies Act (The Companies Act, 1974) or may be the member of the Board.

- At least one of the audit committee (The Code, supra note 4) non-executive directors should be legal advisor or professional lawyer.

- Audit committee with these professional lawyer or advisors should verify all company’s compliance with appropriate laws, and

- The audit committee should be authorizing for its legal expertise. Through authorization the audit committee should determine and amuse complaints stuck by minority shareholders.
4. EMPIRICAL STUDY

This chapter of the study presents the empirical data in a systematic and coherent way. This chapter shows the data collected from KAU and UOP official websites, internal auditors' responses, the internal audit and annual reports of both universities and through the interviews the researchers administrated to them. The data collected from SCEP through questionnaires.

4.1 Karlstad University and University of Peshawar at a Glance

4.1.1 Karlstad University (KAU)

Karlstad University is situated in Karlstad, which is the country town of Värmland. Värmland is situated in a delta on the northern shore of Lake Vänern. It is a place where the river Klarälven divided into many arms before flowing into Lake Vänern (KAU, 2012.a). Karlstad is due to the legend of Sola i Karlstad (sol=sun) also known as the Sun City (KAU, 2012.b).

Karlstad University is providing the multidisciplinary, disciplinary and broad-based programs for their home country students and for students from abroad also developing strong areas of research (KAU, 2012.c). The research field has grown fast in the recent times, for the aim of sustainability development and for the development of leading research fields (KAU, 2012.d).

The University of Karlstad approximately offers about: 50 Bachelor’s degree programs, 30 Master’s level degree programs and about 900 courses in social and economic levels, fine arts and humanities, natural sciences, health care, engineering and technology and also teacher training programs. Currently, Karlstad University offers more than 100 courses in English and several masters programs (KAU, 2012.e).

Table # 02 Existing Students and Staff

<table>
<thead>
<tr>
<th>Description</th>
<th>Existing Students</th>
<th>Existing Staff</th>
<th>Total (Students and Staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,500</td>
<td>1,100</td>
<td>13,600</td>
<td></td>
</tr>
</tbody>
</table>


4.1.2 University of Peshawar (UOP)

University of Peshawar was founded in 1950, being a mother university of Khyber Pukhtunkhwa (KPK) is catering to the education needs to all of the province and Federally Administered Tribal Areas (FATA). UOP is located (at the
gateway to Central Asian states) in Peshawar Khyber Pukhtunkhwa, which is a
city famous for true folklore hospitality. The University strives to be a prominent
government sector university in the Peshawar Khyber Pukhtunkhwa region and
recognized for its global perspective, supporting and diverse learning
environments, having reputation nationally and internationally in creative
discovery, research and emphasizes on leadership development. The University
follows a strategy of providing access quality education to fulfill the need of the

The University has 842 students in arts and humanities, 739 in Islamic and
oriental studies, 2524 in life and environmental sciences, 1478 in management and
information sciences, 1713 in numerical and physical sciences, 2680 in Social
sciences and 257 Centers (Annual Reports, 2007-08; 2008-09; UOP, 2012).

During the year, the total number of students (including privates) of the
University is 104,479; existing enrollments, 14,060; Population of the campus
(staff and students) 75,000; Teaching faculty, 599; Non teaching staff, 2094;
Bachelors, 59064; Masters, 34181; Master of Philosophy, 725 and PhDs,
491(Annual Reports, 2007-08; 2008-09; UOP, 2012).

<table>
<thead>
<tr>
<th>Description</th>
<th>No of students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor</td>
<td>6,320</td>
</tr>
<tr>
<td>Master</td>
<td>6,544</td>
</tr>
<tr>
<td>M.Phil</td>
<td>705</td>
</tr>
<tr>
<td>PhD</td>
<td>491</td>
</tr>
<tr>
<td>Total Existing Enrollments</td>
<td>14,060</td>
</tr>
</tbody>
</table>


4.2 Karlstad University and University of Peshawar Internal Audit

4.3 Karlstad University (KAU) Internal Audit

The Karlstad University audits are of various types such as; administrative,
financial, accounting and even logistic in nature, which affect all departments of
the university. The audit department of the university presented internal audit
reports for the financial year 2010 and 2011, to the audit commission. From this
audit period the authors chose six reports; Revisionsrapport projektredovisning
slutversion (RRPS, 2010), Revisionsrapport doktorander, slutversion (2011),
Internrevisionens rapport granskning av kursvärderingar (IRGK, 2010),
Revisionsrapport examination (2011), Slutversion and revisionsrapport diariet
slutversion (SRRD S, 2011), for their research study (Internal Audit Reports, 2010;
2011).
The purpose of the internal audit is to review the existing regulations and internal procedures of the university operations, and the internal auditor of the university is more concerned with the non-financial issues of the university. The Higher Education provides the rules and regulations to the university and to the audit department. The Internal Audit (IR) department with the university board established an audit plan to conduct audit by enforcing the existing regulations and internal policies and procedures. The Karlstad University audit department consists of only one member (the internal auditor) and the paradigm of the audit department is so simple (Internal Audit Reports, 2010; 2011).

4.4 University of Peshawar (UOP) Internal Audit

The audit of the accounts of the University of Peshawar for the fiscal year 2010-2011 was conducted by an audit team under the supervision of university internal auditor. The audit was conducted according to the guidelines issued and the other rules and regulations of the government (i.e. financial rules, General Financial Rules, Drawing Disbursing Officers, Public Procurement Regulatory Authority). To watch the accuracy and fairness of the account recorded data and all the transactions were reviewed. The internal auditor reviews the data to express an independent opinion about; the accuracy, completeness and fairness of the accounts; observation of the rules and regulations and the allocation and utilization of the university funds allocated by the government. The University of Peshawar audit department consists on a cordial environment and there are four members (Audit officer (Internal auditor, Superintendent, Assistant audit and Clerk) (Internal Audit Reports, 2008-09; 2010).

The internal audit reports of UOP are consists of two sections: Section “A” and Section “B”. Section “A” consists on the previous and current (finding) paras (means that the position need to be explained to audit (with written proofs)) of the internal audit, while Section “B” is the annotated replies against these paras. In the internal audit reports of UOP there are a lot of recommendations on weak areas for further improvement (Internal Audit Reports, 2008-09; 2010).

4.5 Respondent to the Questionnaires (Part I)

In order to cover the research study gap number of interviews was conducted related to the position of internal auditors, their team members and some other auditors to achieve the research study objectives. Interviews from different dimensions not only provide deeper understandings of internal audit but also provided great help in solving the research question. The information was
collected from both universities websites and internal audit reports but still there was a gap which was not satisfactory to answer the research question. So, we felt it more adequate to conduct interviews to fill the gap in the research study. The authors think that interviews played a key role in our research study because of collecting differs types of data from different respondents related to internal auditing. The main questions were rotating around the internal audit role, corporate goals while other was related to the theory study to correlate both the chapters.

The interviews were conducted among two different universities (and Security of Exchange Commission of Pakistan (SECP)) belonging to different culture backgrounds (UOP and KAU) the replies differ somewhat in their culture and individuals educational background. Hence, we suggest to present two answers of each question and after that give a general description of all the respondents’ answers or replies, because we felt that to present the general views of all the respondents are more important to the research question than give each respondent answer separately. As the interviewees are specialized in their field and most of the time the answers were from their personal experience in their relevant field. The respondents’ answers were different in views and in sizes; therefore authors feel to summarize similar answers and also to give justice to all the answers of the respondents.

### 4.5.1 Bio-data of the Respondents Interviews

#### 4.5.1.1 Karlstad University, Respondents Bio-data

The below Table # 4 shows the Bio-data of the respondents to questionnaire from Karlstad University. We use A, B and C names of the respondents; they are the Internal Auditor, Dean (Professor) and Department Director (Manager) from Karlstad University.

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Gender</th>
<th>Age (in year)</th>
<th>Academic Qualification</th>
<th>Area of Specializations</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Internal Auditor</td>
<td>Female</td>
<td>63</td>
<td>Certified Accountant</td>
<td>Accounting</td>
<td>11</td>
</tr>
<tr>
<td>B</td>
<td>Dean (Professor)</td>
<td>Male</td>
<td>51</td>
<td>PhD</td>
<td>General Linguistics</td>
<td>3.4</td>
</tr>
<tr>
<td>C</td>
<td>Department Director (Manager)</td>
<td>Male</td>
<td>38</td>
<td>Bachelor in Media Communication</td>
<td>Not Applicable</td>
<td>2.2</td>
</tr>
</tbody>
</table>
4.5.1.2 University of Peshawar, Respondents Bio-data

The below Table # 5 shows the bio-data of the respondents from Peshawar University and we have used the name D and E for the Internal Auditor and Assistant internal Auditor from Peshawar University.

Table # 5 Respondents Bio-data

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Gender</th>
<th>Age (in year)</th>
<th>Academic Qualification</th>
<th>Area of Specialization</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>D</td>
<td>Internal Auditor</td>
<td>Male</td>
<td>58</td>
<td>M.Sc-Agriculture</td>
<td>Banking/Audit</td>
<td>30</td>
</tr>
<tr>
<td>E</td>
<td>Assistant Internal Auditor</td>
<td>Male</td>
<td>33</td>
<td>M.Com</td>
<td>Finance</td>
<td>9</td>
</tr>
</tbody>
</table>

4.5.1.3 SECP (Pak) Respondents Bio-data

The below Table # 6 are consist of bio-data of the respondents from the “Security of Exchange Commission of Pakistan (SECP)”.

Table # 6 Respondents Bio-data

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Gender</th>
<th>Age (in year)</th>
<th>Academic Qualification</th>
<th>Area of Specialization</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>F</td>
<td>Director Internal Auditor</td>
<td>Male</td>
<td>36</td>
<td>Bachelor/FCA</td>
<td>Audit and Insurance</td>
<td>11</td>
</tr>
<tr>
<td>G</td>
<td>Joint Director Internal Auditor</td>
<td>Female</td>
<td>35</td>
<td>B.Com/ACCA</td>
<td>Audit and Insurance</td>
<td>14</td>
</tr>
<tr>
<td>H</td>
<td>Assistant Director</td>
<td>Male</td>
<td>34</td>
<td>B.Com</td>
<td>Financial Management</td>
<td>9</td>
</tr>
<tr>
<td>I</td>
<td>Internal Auditor</td>
<td>Male</td>
<td>27</td>
<td>Master/CA</td>
<td>Finance</td>
<td>2</td>
</tr>
</tbody>
</table>

The specialization areas of the respondents were Banking, Audit and Insurance, Financial Management and General Linguistics. Among these 4 interviewees have Masters Degrees, 5 interviewees have Bachelor’s Degrees. The respondents having professional qualification are 8 out of 9 and the area of specializations are; Banking and Auditing, Accounting, Audit and Insurance and Financial Management. It means that most of the auditors have relevant qualification to their profession. Internal auditor I (Master/CA) is posses the highest relevant
qualifications while C and H (Bachelor in Media Communication, B.Com) possess the lowest qualification. The maximum experience among all have D (30 years), while the lowest experience individual is I (have 2 years).

4.5.2 Respondents to the Questionnaire

The Interviews were conducted on different level on a regular basis. We arranged 5 interviews and the questionnaire was administrated to the internal auditors (their team members and others individuals) of KAU, UOP and SECP on April 12, 2012 and April 3, 2012. The total positive responses receiving rate was 75% (9 out of 12) from both universities and SECP on different dates from February 17, 2012 to May, 15, 2012.

4.5.2.1 Karlstad University: Respondents Replies to Questionnaire

4.5.2.1.1 Question # 1:

Who decide the subject of audit of KAU?

“The board of the University, after a discussion between the internal audit, rector and the president” (Internal Auditor-A)

The respondent of Karlstad University avowed about the subject of audit that the responsible individuals who decided about the university audit are; the university board discusses the subject of audit with the president, internal auditor and the ultimate rector.

4.5.2.1.2 Question # 2:

There are how many team members in the audit department of the university? And who make the audit?

“One person- that’s I and internal auditor is employed, especially for auditing.” (Internal Auditor-A)

The interviewee answered to this question that the internal audit department of Karlstad University consists of only one member i.e. internal auditor. The internal auditor makes an audit of the university as is employed for internal audit.

4.5.2.1.3 Question # 3:

Who are responsible for implementing the recommendations?
“Ultimate Rector” (Internal Auditor-A)

The recommendation in the audit report is mentioned by the ultimate reactor of the university on weak areas to improve the management efficiency and effectiveness.

4.5.2.14 Question # 4:

Does, KAU choose external auditors for their financial audit?

“No never! The University will always be auditing by The Swedish National audit office.” (Internal Auditor-A)

Related to the financial aspects and external auditing, the university was audited by the Swedish National Audit Office. The Swedish National Audit Office assigns Ernst & Young (E&Y) for the university audit, as they are contracted to the Audit EU-Project.

4.5.2.2 University of Peshawar and SECP: Respondents Replies to Questionnaire:

4.5.2.2.1 Question # 1:

What qualification and experience internal auditor needed for an efficient audit? And what factors makes an internal audit efficient and effective?

“Qualifications: Member of any professional body of accountants, Experience: Experienced in both audit and accounting, the internal auditor should have a direct and a ready approach to the top management” (Assistant Director-H)

“He should have high qualification with financial background and should be well aware of the Calendar of University, Financial Rules, GFR, PPR and DDOs. And audit should be conducted frequently in each department.” (Assistant Internal Auditor-E)

The respondents answered that the internal auditors should have high qualification. One of the respondent replies that, they need to be a member of any professional accountant body with accounting and audit experience, while another respondent mentions that internal auditor need high qualifications with financial background and should need to aware about the rules and regulations of audit.
4.5.2.2.2 Question # 2:

What does the internal audit look for and what do the corporations or institutions expect during an audit? Does internal audit looking for negative things?

“Internal Audit looks for helping an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, overall effectiveness and efficiency of company's operations.” (Director Internal Auditor-F)

“Internal audit have to check the legal requirements, is the sufficient documentation is being made before payment or preparing accounts. It does not mean that internal audit look for negative things only but to critically examine the case and makes comments for its solution." (Internal Auditor-D)

Most of the interviewees expressed their views in the same direction, that internal audit looks for compliance with the company policies and also for a sound internal control system of company. One of the respondents articulates about the internal audit policies that they are designed to ensure help and to protect from risks. Regarding internal auditing looking for negative things the respondents answer in different ways. Most of the respondent replies that they are not looking for negative thing but to point out operations weaknesses and to give recommendation on those weak areas to asses company efficiency and effectiveness, while one replies that they are not only looking for negative things but also making comments on the negative things for its solution.

4.5.2.2.3 Question # 3:

Who does Internal Audit report to and who Audits Internal Audit?

“Internal Audit Department reports to Audit Committee of an organization. Further an audit committee also serves as a governance mechanism on the day to day activities of internal audit department.” (Joint Director Internal Auditor-G)

“Internal auditor has to audit and make internal audit report to audit committee.” (Assistant Internal Auditor-E)

Concerning the internal audit report and audit, the respondents give their views again in the similar way that department of internal audit make an audit and report to the audit committee. The audit committee involved to check daily activities of the audit department related to their routine work.
4.5.2.4 Question # 4:

What are the potential benefits of internal audit to your institution/company? How much time will internal auditor require to complete an audit?

“Internal Audit reviews the adequacy and effectiveness of university’s system and controls (... ... ... ... ). Various factors such as scope, objective, availability of staff etc determine the duration.” (Internal Auditor-D)

“This is the potential of internal audit in our company that no loss or defalcation comes into the notice till date. As far as time required so it’s a regular check and its need to be through out of the year.” (Assistant Director-H)

The interviewees replied to this question in different ways. One of the respondents mentioned that about internal audit ensures reliability and integrity of financial and other operating information and the means used to identify measure, classify and report such information. Another stated that internal audit reviews the adequacy and effectiveness of a company’s system and controls and it checks compliance of various companies’ policies, plans, procedures, law and regulation. Internal Audit reviews effectiveness of company’s functions against stated objectives.

About the duration needed for an audit, respondents answer in the same way that duration of an audit depends upon the nature of audit assignment and one of the respondent mentions that it depends upon various factors of auditing such as scope, objective, availability of staff, which determines the duration.

4.5.2.5 Question # 5:

Internal auditors are interested in “doing the things right” (means that they followed, GAAPs, IAS and other rules and regulations during an audit) or “doing the right things” (means doing things what is correct from a moral perspective)?

“Of course, Internal Auditors are interested in doing the things right i.e during an audit, IFRS, International standards on auditing and assurance, International Professional practices framework (IPPF) and IIA’s recommended Technical Internal Audit material are regularly and meticulously followed.” (Joint Director Internal Auditor-G)

“Internal auditors are interested in “doing the thing right” to follow the regulations and compliance the rules.” (Assistant Internal Auditor-E)
The respondent answers to this question in the same way that the auditors are interested to follow the rules and regulations and standards during an audit. These standards and rules and regulation are connected to the objectives of a firm or organization.

4.5.2.2.6 Question # 6:

What is the role of internal audit in the achievement of corporate goals? Does, there are any expectation gap between internal audit and institution/company goals?

“No, there is no expectation gap between internal audit and corporate goals. Internal Audit in fact is an activity which is designed to add value (… … .) Internal Audit ensures accomplishment of corporate goals in an effective and efficient manner.” (Assistant Director-H)

“... working in company is a team work and there is no difference in the goal of a corporate and internal audit.” (Internal Auditor-D)

The replies to this question was in the same mode that companies and corporations are working for the same objectives achievements, therefore there are no expectation gap between internal audit and company or university goals. Further they mention that internal audit aim is to improve and add value to company operations. The internal audit ensuring efficiently and effectively the corporate goals and it brings some valuable methods to achieve company goals.

4.5.2.2.7 Question # 7:

To, what extent the internal audit committee contributes in the achievement of company/university goals and without internal audit, it is possible to run the company/university smoothly?

“The internal audit committee plays a much more significant role in reducing losses than external auditors do. Internal (… ... ...) can also serve as a major deterrent to fraud if employees and vendors believe that any significant fraud will be detected quickly by internal auditors.” (Director Internal Auditor-F)

“It is a legal requirement that every payment should be made after scrutiny of internal auditor. So it is not possible to run a university or company smoothly without internal audit.” (Internal Auditor-D)

The interviewees articulate to this question with different answers that internal audit plays a vital role in corporation goals achievements, and it is a lawful
requirement (for most of the corporations) to have an internal audit department to audit the internal operations of a corporation. The aim of internal audit to check the compliance with rules and it is not possible to run a corporation smoothly without an efficient and effective internal audit department because of today’s frauds and errors in business operations. Another interviewee felt that if the internal auditors are properly trained contribute a lot in goal achievement and without audit the university or company cannot be run smoothly.

4.5.2.2.8 Question # 08:

Is there any other (than internal audit) possible way through which company/university could enhance; quick discovery of errors, stand out of frauds and also to improve audit efficiency?

“Through job rotation, Inducting new blood in management of operational (… ... ... ) whittle blowers' noise” (Internal Auditor-D)

“Yes, Computer technology gives auditors a new set of techniques for examining the automated business environment. Audit software can be used to interrogate a company's data files and identify data patterns associated with fraud (……………..)” (Assistant Director-H)

In answer to this question, most of the interviewee’s replies were somewhat similar that there are other ways through which organization or university could enhance quick discovery of errors, stand out of frauds and can improve company or university audit efficiency. Most of them mention about computerize technology, but one of them further mention that through this technology company can do a number of other jobs like; comparing employee addresses with vendor addresses to identify employees that are also vendors; and sorting payments by amount to identify transactions that fall just under financial control on contract limits. Further through job rotations and through the involvement of new bloods in the operational function could enhance university or company efficiency. But one of the respondent answer as he felt that; No, internal audit is the only way for smooth running of university operations, if proper trained manpower are provided to audit department.

4.5.2.2.9 Question # 09:

As internal auditors require continuous auditing throughout the financial year, what steps they followed during auditing for company efficiency?

“Following steps are taken for efficient internal audit of the company:
1. An annual audit plan should be in place.

• The plan should be approved by the Board of Directors (… … … … … … … )” (Joint Director Internal Auditor-G)

"Visit all the premises of the university or organization, liaison with all the departments, and keeping an update of the latest developments and technologies.” (Internal Auditor-D)

Regarding this question almost all the respondents are somewhat similar but mostly differ in their answers. The auditing schedule develops to make sure that all essential functions are audited on a regular basis; the audit plan should be reviewed and approved by the board of directors. The department reports to the board of directors, the audit department is staffed adequately and with personnel having the appropriate technical backgrounds. The audit department receives “exception reports” that serve as “early warning” flags for possible fraud. They perform year-to-year comparisons of financial statements to detect potential fraud and the audit reports are distributed to the board of directors and senior management; action plans are developed for correction of all deficiencies found during audits. Internal auditors should ensure that external auditors provide no other services, e.g., management consulting services, to the client. Further, internal auditor reconciles the accounts at the end of the period to check the originality of the expenditure.

4.5.2.10 Question # 10:

Is there any potential weakness in the exercise or in the adoption of auditing techniques that prevent internal auditors to perform and achieve the company goals more efficiently?

"Yes, no matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems (… … … … … … ) company provides consulting services to the client as well as conducting audit reviews.” (Assistant Director-H)

"This is the primary duty of the Principle Accounting Officer that there should be an adequate internal check in the department before making expenditure. The rules made for making expenditure are sufficient but it needs to be fully exercised.” (Internal Auditor-D)

Most of the respondents agree to potential weakness in the adoption of auditing techniques and some of them mention about the limitation which is inherent in all internal control system. One interviewee mentions the rules for expenditures are sufficient but they need to exercise efficiently. The internal controls only provide
assurance regarding objectives and the effectiveness of controls will be limited by
decisions made with human judgment under pressures to conduct business based
on the information at hand. Even well designed internal controls can break down.
Employees sometimes misunderstand instructions or simply make mistakes.
Errors may also result from new technology and the complexity of computerized
information systems. High level personnel may be able to override prescribed
policies and procedures for personal gain or advantage. This should not be
confused with management intervention, which represents management actions
to depart from prescribed policies and procedures for legitimate purposes.
Control systems can be circumvented by employee collusion. Individuals acting
collectively can alter financial data or other management information in a manner
that cannot be identified by control systems. In limitations they mention; the
auditing function reports to an executive or operational level that could influence
the objectivity of its work and the auditing staff is deficient in size, training, or
experience which is the most common weakness is size. The audit staff does not
have fraud detection software available and many auditors are not aware of the
existence of such a tool. Auditors fail to devote sufficient time to auditing two
major sources of vendor fraud: consulting services, advertising services and the
external auditing company provides consulting services to the client as well as
conducting audit reviews.

4.5.2.2.11 Question # 11

What tools are most important for internal auditor during auditing
throughout the financial year?

“Independence, the ability to look out of the box and a comfort level that criticism by the IA
would be accepted with a positive frame of mind.” (Internal Auditor-D)

“Data mining” techniques, Detection Tools: Ratio Analysis i.e. the ratio of the highest value to
the lowest value and the ratio of the current year to the previous year, (... ... ... ... ).”
(Internal Auditor-I)

The respondents articulate to this question and their answers were different. One
of the interviewees mentions data mining and other detection tools, such as: ratio
analysis utilized, current ratio, collection ratio, debit to equity, quick ratio,
inventory turnover, profit margin, receivable turnover, asset turnover and average
days inventory in stock. Another mention financial rule such as, General Financial
Rules (GFR), Drawing Disbursing Officers (DDOs) and Public Procurement
Regulatory (PPRA). University syndicate rules and regulation, University calendar
are the basic tool which are using by the audit department, while other respondents mention the independence of internal audit committees.

### 4.5.2.12 Question # 12

**For what purpose internal auditor reviews recorded data (why company audit)?**

“The internal auditor has to certify that all financial rules are exercised during the financial year or not.” (Assistant Director-H)

“To check for compliance and analyze for financial viability.” (Assistant Internal Auditor-E)

Respondents felt that the purpose of internal audit is to check the viability and to certify that all the rules and regulation, and auditing techniques are followed during the financial year.

### 4.5.2.13 Question # 13

**Do the regulatory authorities issuing guidance and appropriate standards for an unambiguous and clear internal audit?**

“Yes, International Internal Audit Standards Board (IIA SB), Standards are principle-focused and provide a framework for performing and promoting internal auditing (... ... ... ... ...) SECP (Security of Exchange Commission of Pakistan), manual of Corporate Governance.” (F)

“Of course standard operating procedures (SOPs) are made from time to time by the authorities to enhance the efficiency of internal audit.” (D)

Regarding the regulatory authority appropriate standards, most of the respondents answer that the regulatory authority issues guidelines for a clear and unambiguous audit. The standards are mandatory requirements consist the basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual level. While one articulates that standard operating procedures (SOPs) are made from time to time by the authorities to enhance the efficiency of internal audit. Another respondent state that the university syndicates issued the note about the duties and responsibilities of internal audit cell. And if the internal audit is bias less then there will be no negative impact on the university and company goals.
4.6 Respondents to the Recommendations (Part II)

4.6.1 KAU Respondent to Recommendations

“The faculty board, the dean, and by assignments, the heads of the departments are responsible” for mentioning recommendations in the audit report. Related to the audit of Karlstad University, the respondents replied that they had a special “Faculty Audit” performed by the university. In addition, there was also an internal audit report about course evaluations, dnr C2010/19. The University also makes an annual “quality accounts” for each department and the information goes into to various annual reports from the faculty to the central administration of the university (Dean-B & Department Director-C).

4.6.2 UOP Respondent to Recommendation

The respondent of the Peshawar University replies to the recommendations that: “Internal auditors assist the management by giving valuable recommendations on the weak areas to enhance the overall efficiency of the university’s operations.” Further he replies, internal auditor is directly reportable to the board of directors and (is hence the true representative of the shareholders and) his recommendations give an independent opinion about the state of affairs of the university or company. The management is trying to follows and exercises all the recommendations mentions in the internal audit reports (Internal Auditor-D).

4.7 Comparison: Karlstad University and University of Peshawar

4.7.1 Karlstad University (KAU)

The internal audit (IR) department paradigm of the Karlstad University is simple because the department consists on only one internal auditor. The purpose of the internal audit is to review the existing regulations and internal procedures of the university operations and the internal auditor of the university is mainly concerned with the non-financial issues of the university. The university is financially audited by the Swedish National Audit Office. The Swedish National Audit Office assigns Ernst & Young (E&Y) for the university audit, as they are contracted to the Audit EU-Project. The Internal Audit (IR) with the Board’s established audit plan to conduct audit by enforcing the existing regulations and internal policies and procedures. The Higher Education provides rules and regulations to the university regarding admission, examinations and related to other procedures of the university. The university currently has 26 registrars
(approximately) and each faculty, personnel department and offices have one or more registrars called the major registrar responsible for recorded data.

There is not a single internal audit report which shows the overall picture and complete overview of the university operations because of the assign of specific tasks to the internal auditor and the internal auditor is more concerned with non-financial issues. Therefore the internal auditor of Karlstad University has very limited connection with financial issues.

4.7.2 University of Peshawar (UOP)

The audit department of the University of Peshawar consists of four members, they are: an audit officer (internal auditor), superintendent, assistant audit and a clerk. The environment of the audit department of the university is cordial and internal auditor (internal audit officer) is reportable to the top management of the university. The university follows the rules and regulations issued by the Higher Education Commission of Pakistan and other Government rules. The internal audit department follows some financial rules during auditing (see: in UOP audit) and the university syndicate issued the Note about the duties and responsibilities of the internal audit cell. During internal auditing the audit cell check: whether the accounts are balanced, the bank accounts are fully reconciled at the end of each month and year, the expenditure made for the purpose for which it has been appropriated and if the accounting reports are not based on the facts it should be brought into the notice of management as the duty of an auditor. If the auditor is not independent, he or she will not be able to audit properly and will have to face obstacles in his or her ACR, Transfer, Promotions and other related problems. The primary duty of the accounting officer of the department is to check adequately each transaction before making expenditure and for expenditure rules are made for the university.

The UOP and SECP interviewees were somewhat different in their responses but mostly similar. Compare to UOP internal audit department the SECP internal audit department were more striker in their rules and regulations.

The UOP internal audit reports are more concerned with the financial aspects of the university and focusing only on the weak areas of the management operations, which exactly does not shows the complete financial picture of the university.
5. RESEARCH ANALYSES

This is the penultimate chapter of our study. This chapter provides the research study analysis and our reflection, and the empirical findings and theoretical framework are compared. The analysis will help us in providing solid answers to our research question and will provide a convincing and concrete conclusion to our research study.

5.1 Qualification of Internal Auditor

The required and relevant qualification of an internal auditor is one of the undeniable facts which make an auditor professionally independent and competent. Without background and experience in the relevant field and working as an auditor may bring some challenges to their work. To contribute in the overall objectives, performance and productivity of a firm the internal auditors need right qualifications for their job. The auditor who has not relevant knowledge can rely on peers because he doesn’t have the relevant knowledge related to the post he or she was hired for. Most of the companies believe that knowledgeable individuals can add value and can efficiently contribute in company objectives.

The internal auditor in KAU, UOP and SECP possesses qualifications of; Banking, Finance, Audit and Insurance, Financial Management and Accounting, which are the relevant qualification related to their job positions. Some of the internal auditors have some different professional qualifications or background in; Audit Trainings, FCA, ACCA and CA. Such of these professional qualifications make internal auditors talented to make reporting objectively. In case of any danger, related to fired from their job or some other problem related to his or her independent opinions, he or she can get other jobs in relevant competent places and can secure his or her independency in the firm.

It is observed that the basic qualifications and experiences needed for an internal auditor, he or she should have knowledge about accounting and auditing and should be a member of any professional accountants’ body. The internal auditors should have a direct ready approach to the top management of the firm, that they should discuss the operations and other aspects of the firm with top management. The qualification of an internal auditor that he or she should have high qualification, knowledge about calendar of university, with some financial background with rules such as, Financial Rules, Drawing Disbursing Officer,
General Financial Rules, Public Procurement Regulatory Authority and the audit needs to be conducted independently in each department of university. So, it means we can not underestimate the right qualification of any individual related to their job, for which he or she is hired, and the high and professional qualification in the relevant field also brings value to the firm.

5.2 Responsibility of an Internal Auditor

In today business world internal auditor plays a key role in helping management in achieving company goals. Internal auditing not only assures the management but also provide consultancy services to the company’s staff to enhance their skill and abilities. Internal auditor evaluates the operation of the company with the planned rules to determine outcomes with goals. The internal auditor is concerned with the risk management of an enterprise, maintaining and developing the enterprise risk management framework, risk evaluation and facilitating and developing of strategy for supports.

The University of Peshawar syndicate issued the Note about the duties and responsibilities of the internal audit department of the university, that the auditor department know about their roles and responsibilities. Karlstad University internal audit department also have rules and regulations for their internal auditor.

5.3 Independency of Internal Auditors

An independent auditor not only provides the true and fair report to the management of the firm but also increase confidence in the auditor’s ability. After the auditing scandals the emergence of independence legislation regulation occurs. Currently most of the firms are aware of the guarantee of high quality work and they help auditor to be independent in their firms. An independent auditor's work gives high credibility to him or her and without independence the auditors work have no worth.

The internal audit departments of both universities are independent in their work. The internal audit departments are report to the board to the university and therefore they need to be independent both in mind and work. In the Swedish previous law it was mention that the auditor’s should resign from their job, if they feel that their independence did not exist in the assignment. In public organizations in Pakistan sometimes the auditors compromise on their audit work and do not show the fair picture of the operation of the firm.
5.4 Objectives of Internal Audit

The main focus and objectives of internal audit is to help the management in the effective discharge of their auditing responsibilities. Internal audit provides to the management of a firm; analysis about management operations, their appraisals of overall operations and the provision of valuable recommendation to the overall management regarding their work. Internal auditors are helping or servicing the top management of the firm and review the accounting and financial record of the firm for a specific time period. Internal audit also provide performance limitations and providing recommendations to improve the company efficiency. For the solution of business problems internal audit providing counsel to board of directors and managers and providing useful, timely and reliable information to the management. Additionally, internal audit through their services types activities contribute in achieving over objectives of the firm.

It is observed during study that the objectives of audit departments are to assist the overall management by discharging their responsibilities. Internal audit provides valuable recommendation on the weak areas of the management operations and make appraisal of the overall operation of the company. Internal audit ensures reliability and truthfulness of financial and other operations of the university or organization and reviews effectiveness of company’s functions against stated objectives. This simply means that the internal audit departments of both universities are involved in overview as well as in the assessment of all departments operations of the universities.

5.5 Audit Committee

According to the Swedish Code the board of directors is responsible to employ an Audit Committee and the Committee should be consist at least three members of the board of directors. According to Swedish Code at least one member of the Audit Committee must be independent towards the major owner of the company and the committee has also to be independent towards management and company (SOU, 2004: 46, Chap: 3.8.3).

At least one of the audit committee (The Code, supra note 4) non-executive directors should be legal advisor or professional lawyer. Audit committee with these professional lawyer or advisors should verify all company’s compliance with appropriate laws, and the audit committee should be authorizing for its legal
expertise. Through authorization the audit committee should determine and amuse complaints stuck by minority shareholders (Ibrahim Ali, 2006).

The internal audit committee plays a much vital role in reducing company losses as they have potential greater knowledge of the internal operations of the company. They generally know about the control weaknesses are and about individuals or operations bear closer scrutiny. The auditing function can also serve as a major prevention tools to fraud, when employees believe that any significant fraud will be detected quickly by the internal audit department of the university. It means that without audit committee a company cannot give the required results as planned by management.

5.6 Internal Audit Tools

In today's business world, internal auditor needs some new ways through which companies could enhance quick discovery of errors, stand out of frauds and can improve corporation audit efficiency. Computerize Technology is one of the undeniable fact in competition world. This technology in corporation can do a number of other jobs; searching for duplicate check numbers to find photocopies of company checks; searching for vendors with post office boxes for addresses; analyzing the sequence of all transactions to identify missing checks or invoices; identifying vendors with more than one vendor code or more than one mailing address; finding several vendors with the same mailing address; and sorting payments by amount to identify transactions that fall just under financial control on contract limits. The Computer Assisted Audit Tools and Techniques is one of the important tool through which auditors can detect frauds and omissions. Through job rotations and through the involvement of new bloods in the audit department could also enhance the company efficiency.

It is observed that through the use of auditing tools like advance computer technology internal auditors can improve their efficiency. In Karlstad University most of the internal audit work is done through the use of computerized technology but it is not clear that which kind of auditing software they use for audit efficiency, while in the university of Peshawar is not connected with such advanced tools.

5.7 Rules and Regulations

The internal auditors are interested to follow the rules and regulations and standards during an audit. These standards and rules and regulation are connected to the objectives of a university or organization. The internal auditors are properly
trained to contribute a lot in goal achievement and to check the compliance with rules and regulations.
6. CONCLUSION, RECOMMENDATIONS AND SUGGESTIONS

The preceding chapter consists of the analysis and discussion of the study and the aim of this chapter are to provide the conclusion of the study and summarize some suggestions and recommendations for further studies.

6.1 Conclusion and Limitations

The main purpose of our study was to explore the internal audit contribution to the organization goals. A theoretical study was conducted to find about internal audit participations in overall objectives of the university or organization. As the management and audit staffs are working as team members, therefore the management and company objectives in the same direction. It simply means that the business objectives and organization objectives can be the same. The result of such audit assures the conformity of the operation standards and effective process implementations in operations areas to contribute in organization efficiency.

Based on theory we empirically collected interviews from internal auditors, assistant internal auditor and from other staff of Karlstad University, University of Peshawar and from Security of Exchange Commission of Pakistan. The target groups of the respondents KAU, UOP and SECP evaluate that an internal audit contributes to the university or organization goals. It is also observed that an internal audit (indirectly) contributes in the achievement of organization objectives and can improve university or organization efficiency.

We found that the culture of audit department at KAU is different from UOP in terms of staff and operations. The number of audit staff can affect the results of an audit, assigning different responsibilities to one person causes inefficiency in operations. As compared to UOP, financial reports and tools are not being focused in internal audit operations at KAU. Top management support not only improves auditor efficiency but also encourage their involvement in risk prevention. The internal audit can be used as a base to assure the management about the conformity of the university or company rules and regulations but also to contribute and assure company goals.

Although this research study was carefully prepared but still there were some limitations which we faced during the research study:
Firstly, time constraints of the semester require less time than may be perfect for a deep study; secondly, the respondents from both universities were limited; thirdly, the questionnaire replies were so limited and were not enough for a complete investigation.

6.2 Suggestions and Recommendations

After concluding the research study we suggested recommendations which can be useful for both institutions in improving their internal audit operations in order to achieve audit objectives.

- The KAU management should need to increase the number of staff in audit department and should need to know about the tools of auditing.

- The KAU audit staff needs to know about the financial rules and regulations of the university.

- The audit software for detection of error or fraud is a perfect application for “Computer-Assisted Audit Tools and Techniques” and other audit software can be used to interrogate both universities data files.

- A proper investigation mechanism should be in place in UOP and all suspected fraud incidents should first be internally investigated and if found correct, should be referred to law enforcing agency to fix criminal charges against the accused.

- Computer Technology should be used in the departments to gives auditors a new set of techniques for examining the automated business environment by the UOP.

- The management of the UOP needs to keep each and every transaction’s record to minimize the errors and budget missing (in their records).
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8. APPENDIX

4.5.2.1 Karlstad University: Respondents Replies to Questionnaire:

4.5.2.1.1 Question # 1: Who decide the subject of audit of KAU?

“The board of the University, after a discussion between the internal audit, rector and the president” (Internal Auditor-A)

4.5.2.1.2 Question # 2: There are how many team members in the audit department of the university? And who make the audit?

“One person - that’s I and internal auditor is employed, especially for auditing.” (Internal Auditor-A)

4.5.2.1.3 Question # 3: Who are responsible for implementing the recommendations?

“Ultimate Rector” (Internal Auditor-A)

4.5.2.1.4 Question # 4: Does KAU choose external auditors for their financial audit?

“NO never! The University will always be auditing by The Swedish National audit office.” (Internal Auditor-A)

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4.5.2.2.1 Question # 1: What qualification and experience internal auditor needed for an efficient audit? And what factors makes an internal audit efficient and effective?

“Qualifications: Member of any professional body of accountants, Experience: Experienced in both audit and accounting, the internal auditor should have a direct and a ready approach to the top management” (Assistant Director-H)
“He should have high qualification with financial background and should be well aware of the Calendar of University, Financial Rules, GFR, PPR and DDOs. And audit should be conducted frequently in each department.” (Assistant Internal Auditor-E)

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What does the internal audit look for and what do the corporations/institutions expect during an audit? Does internal audit looking for negative things?

“Internal Audit looks for helping an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve (… ….) overall effectiveness and efficiency of company’s operations.” (Director Internal Auditor-F)

“Internal audit have to check the legal requirements, is the sufficient documentation is being made before payment or preparing accounts. It does not mean that internal audit look for negative things only but to critically examine the case and makes comments for its solution.” (Internal Auditor-D)

4.5.2.3 Question # 3:

Who does Internal Audit report to and who Audits Internal Audit?

“Internal Audit Department reports to Audit Committee of an organization. Further an audit committee also serves as a governance mechanism on the day to day activities of internal audit department.” (Joint Director Internal Auditor-G)

“Internal auditor has to audit and make internal audit report to audit committee.” (Assistant Internal Auditor-E)

4.5.2.4 Question # 4:

What are the potential benefits of internal audit to your institution/company? How much time will internal auditor require to complete an audit?

“Internal Audit reviews the adequacy and effectiveness of university’s system and controls (… … … …). Various factors such as scope, objective, availability of staff etc determine the duration.” (Internal Auditor-D)

“T his is the potential of internal audit in our company that no loss or defalcation comes into the notice till date. As far as time required so it’s a regular check and its need to be through out of the year.” (Assistant Director-H)
4.5.2.2.5 Question # 5:

Internal auditors are interested in “doing the things right” (means that they followed, GAAPs, IAS and other rules and regulations during an audit) or “doing the right things” (means doing things what is correct from a moral perspective)?

“Of course, Internal Auditors are interested in doing the things right i.e. during an audit, IFRS, (…. …. …. ….) material are regularly and meticulously followed.” (Joint Director Internal Auditor-G)

“Internal auditors are interested in “doing the thing right” to follow the regulations and compliance the rules.” (Assistant Internal Auditor-E)

4.5.2.2.6 Question # 6:

What is the role of internal audit in the achievement of corporate goals? Does, there are any expectation gap between internal audit and institution/company goals?

“No, there is no expectation gap between internal audit and corporate goals. Internal Audit in fact is an activity which (…….) disciplined approach to evaluate risk management, control and governance processes. In a way Internal Audit ensures accomplishment of corporate goals in an effective and efficient manner.” (Assistant Director-H)

“As working in company is a team work and there is no difference in the goal of a corporate and internal audit.”(Internal Auditor-D)

4.5.2.2.7 Question # 7:

To, what extent the internal audit committee contributes in the achievement of company/university goals and without internal audit, it is possible to run the company/university smoothly?

“The internal audit committee plays a much more significant role in reducing losses than external auditors do. Internal auditors have far greater knowledge of the internal operations of the company (…. …. …. ….) that any significant fraud will be detected quickly by internal auditors.” (Director Internal Auditor-F)

“It is a legal requirement that every payment should be made after scrutiny of internal auditor. So it is not possible to run a company smoothly without internal audit.” (Internal Auditor-D)

4.5.2.2.8 Question # 08:
Is there any other (than internal audit) possible way through which company/university could enhance; quick discovery of errors, stand out of frauds and also to improve audit efficiency?

"Through job rotation, Inducting new blood in management of operational functions which are already matured, and by giving due weightage to the whittle blowers' noise"  (Internal Auditor-D)

"Yes, Computer technology gives auditors a new set of techniques for examining the automated business environment. Audit software can be used to interrogate a company's data files and identify data patterns associated with fraud (... ...) (“Assistant Director-H)

4.5.2.9 Question # 09:
As internal auditors require continuous auditing throughout the financial year, what steps they followed during auditing for company efficiency?

“Following steps are taken for efficient internal audit of the company:

1. An annual audit plan should be in place.
   • The plan should be approved by the Board of Directors.
   • The plan should ensure that all financial operations (accounting, purchasing, accounts payable)
     In addition, a good plan should prioritize operational units according to the degree of risk.

2. An "audit schedule" is developed which ensures (... ...) (Joint Director Internal Auditor-G)

“Visit all the premises of the organization, liaison with all the departments, and keeping an update of the latest developments and technologies.” (Internal Auditor-D)

4.5.2.10 Question # 10:
Is there any potential weakness in the exercise or in the adoption of auditing techniques that prevent internal auditors to perform and achieve the company goals more efficiently?

"Yes, no matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems (...) company provides consulting services to the client as well as conducting audit reviews.” (Assistant Director-H)
“This is the primary duty of the Principle Accounting Officer that there should be an adequate internal check in the department before making expenditure. The rules made for making expenditure are sufficient but it needs to be fully exercised.” (Internal Auditor-D)

4.5.2.11 Question # 11

What tools are most important for internal auditor during auditing throughout the financial year?

“Independence, the ability to look out of the box and a comfort level that criticism by the IA would be accepted with a positive frame of mind.” (Internal Auditor-D)

“Data mining” techniques, Detection Tools: Ratio Analysis i.e. the ratio of the highest value to the lowest value and the ratio of the current year to the previous year, (… ... ... ...)” (Internal Auditor-I)

4.5.2.12 Question # 12

For what purpose internal auditor reviews recorded data (why company audit)?

“The internal auditor has to certify that all financial rules are exercised during the financial year or not.” (Assistant Director-H)

“To check for compliance and analyze for financial viability.” (Assistant Internal Auditor-E)

4.5.2.13 Question # 13

Do the regulatory authorities issuing guidance and appropriate standards for an unambiguous and clear internal audit?

“Yes, International Internal Audit Standards Board (IIA SB), Standards are principle-focused and provide a framework for performing and promoting internal auditing (… ... ... ... ... ... ...) SECP (Security of Exchange Commission of Pakistan), manual of Corporate Governance.” (Director Internal Auditor-F)

“Of course standard operating procedures (SOPs) are made from time to time by the authorities to enhance the efficiency of internal audit.” (Internal Auditor-D)