



## Independence of Internal Audit in Zimbabwe Local Authorities

Tapiwa Mupandanyama\*

Department of Public Administration, Midlands State University, Gweru, Zimbabwe

### ABSTRACT

The prevalence of misappropriation of funds, abuse of resources and all forms of corrupt activities have been attributed to limited audit autonomy in public sector organizations particularly local authorities. The paper seeks to assess the independence of internal audit in local authorities. The papers cite that the independence of internal audit is compromised by various factors such as politics, financial constraints and poor legislative framework among other factors. Instruments to promote the independence of internal audit as well as the benefits are also highlighted in the paper.

**Key words:** Internal audit; Independence; Local authorities; Service delivery

### INTRODUCTION

The state of service delivery provided by local authorities directly affects people's lives. In Zimbabwe, the turn of the events from the year 2000 saw widespread complaints on local authorities' service delivery as a result of poor financial accountability. The epitome of bad corporate governance in local authorities is being characterized by rampant corruption, gross misuse of council assets, and embezzlement of council funds. Despite the overall oversight role of the central government through various pieces of legislation, local authorities are failing to establish the independence of internal audit. The paper looks at the factors that affect the independence of internal audit, instruments to improve the autonomy of internal audit and the benefits of a sound and independent audit system in local authorities.

#### Internal auditing

The Institute of Internal Auditors Research Foundation (2011) defined auditing as an independent activity designed to improve organization performance. Internal auditing is a systematic way of assessing problems and proffering solutions in the organization. Humphrey and defined internal auditing as a mechanism employed by organizations to manage legitimacy defined auditing as a monitoring and feedback system on organization internal processes. Internal auditing is viewed by as a control mechanism that provide assurance to management of the local government internal control systems. In short one can

explain internal auditing as the checking of proper usage and movement of money in the organization [1,2].

#### Challenges faced by local authorities in promoting independence of internal audit

##### Political influence

The country has been characterized by a highly polarized political environment and economic decadence over the past eighteen years [3]. The turn of the millennium saw the formation of the Movement for Democratic Change party. This brought new political dimension in the governance of local authorities. The new political turn around extinguished the dominance of ZANU PF in local government elections as a result, polarized party politics emerged in local governance. This led to the emergence of patronage where politicians allocated resources and offer employment to their supporters as noted by [4] this political turn around saw most councillors exercising their functions with political bias that influence audit decisions and findings. Internal audit functions could not be flexibly exercised due to fear of political influence. There is no clear demarcation between politics and administration in local authorities. This has largely affected efficiency in internal audit decision making. This affects efficiency and independence of internal audit as internal audit staff would perform their function in line with the dictates of politician because of the fear of job loss. Councillors who are mostly politicians in council override administrative decisions. Most councillors involve

\*Correspondence to: Tapiwa Mupandanyama, Department of Public Administration, Midlands State University, Gweru, Zimbabwe, Tel: 263 777 952 784; E-mail: caesertapiwa@gmail.com

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themselves in corrupt scandal including illegal stands distribution, influencing fraudulent tendering processes and abuse of council's resources like vehicles. In this view, councillors would interfere in internal audit processes to cover up for their corrupt activities further influencing internal audit independence and objectivity.

#### **Ine perience internal audit staff**

Lack of knowledge and experience on auditing affects independence and performance of internal auditing. Internal audit staff should be competent enough to perform internal auditing functions [5]. Most auditors in local authorities lack adequate knowledge on auditing operations thus affecting independence of internal audit. Many auditors in local authorities were employed on political lines and even those with mediocre qualifications find their way in councils through nepotism. To promote independence, internal auditors need to be competent enough with high professional qualifications. Lack of adequate understanding on concepts of auditing by internal audit staff is a potential threat in upholding internal audit independence and objectivity in our local authorities [6]. The shift from the use of manual accounting methods to computerized accounting has left many internal auditors qualification mismatching with the new accounting developments. Internal auditors in most local authorities are making use of manual auditing systems. This has made them unable to detect computerized theft further compromising service delivery. This has made internal auditors to rely on consulting members of the organization on the new accounting techniques thus affecting their flexibility to perform their audit functions. It is therefore safe to reiterate with strong justification that inexperienced internal audit staff compromise service delivery and independence for them to perform their internal audit function.

#### **Ineffective audit committee**

It is a legislative requirement for local authorities to have an audit committee. An audit committee promotes accountability and transparency. In Zimbabwe members who constitute the audit committee are appointed from the body of elected councillors. The legal framework does not stipulate any qualifications for one to be elected as a councillor. Some of the councillors with mediocre qualification are appointed as audit committee members thus affecting the effectiveness of the audit committee [7]. The business of the audit committee is technical in nature thus need members with an audit background. Councillors are elected through a democratic process. Low academics qualifications of members in the audit committee stifle them to have an understanding of internal audit concepts [8] notes that only the brave who have withstand the heat of political adversaries find their ways in council. Many councillors in rural areas don't have insight on issues discussed in the audit committee. This has made the committee's inability to adjudicate on complicated strategic internal audit issues. Most of the issues that the audit committee should resolve are referred to the management exposing the internal audit committee to depend on management rather than being an independent body. This compromises the committee's independence in performing its oversight mandate as it would largely depend on

management for information on internal audit concepts. Therefore ineffective audit committee affects internal audit independence.

#### **Poor rotation of internal audit staff**

Poor rotation of internal audit staff affects internal audit independence and objectivity. Most internal audit staff has become too familiar with the operations of council. It should be taken into consideration that the internal audit staff administratively reports to the Chief Executive Officer in the case of rural councils therefore independence of internal audit is compromised. Periodic rotation is necessary [9] noted that the failure by the internal audit department is largely a result of lack of support from management emanating from poor rotation of staff. Poor rotation enables internal audit staff to have a close relationship with other members of the organization thus compromising independence of audits. Employees in audit departments of local authorities have been employed in the department for many years. This has been cited as a major effect to autonomy of internal audit in local authorities. Familiarization of the internal audit staff with other staff within the organization affects effective internal auditing. There poor rotation of internal audit staff affects independence and objectivity of internal audit in public sector organizations.

### **Instrument of achieving audit independence**

#### **Unrestricted access**

The internal audit department should have access to all organization assets, minutes' books, asset registers and financial statements. Section 135 of the RDC Act gives the internal auditor power to have access on all documents of council. In terms of section 135 a council shall, for the purpose of an audit in line with sub section (a) "cause to be produced to the auditor all relevant books, minute books, papers and writings in its possession". This improves the efficiency of local authorities (The Institute of Internal Auditors Research Foundation 2011). In addition the Public Finance Management Act (Chapter 22:11) stipulates that an internal auditor shall have access to financial books, receipts, vouchers and all resources under the report unit concerned. This gives the internal audit department the authority to access all council activities. This shows that unrestricted access is an instrument in achieving auditor independence.

#### **Sufficient funding**

Funding is the most crucial aspect in achieving auditor independence. The internal audit department should be fully resourced to ensure flexibility in executing its audit mandate. Funding is critical in promoting an effective internal audit function. Internal audit department should have a clear provision within the council's budget so that audit functions are fully funded to promote efficiency. The RDC Act should provide for the funding of the internal audit department so that it performs its functions effectively and efficiently. This highlights the need for sufficiently funding the internal audit department so that it becomes more effective and independent.

#### **Competent staff**

The internal auditor should have minimum audit qualifications so that audit functions are effectively conducted. The audit department should be equipped with highly competent staff. To promote independence, internal auditors need to be competent enough with high professional qualifications [10]. The internal Audit and Compliance Journal (2013) noted that internal auditors need to have technical audit skills so that they perform their audit role effectively and efficiently. Internal auditors need to exercise high levels of professionalism. Competence of internal auditors influences efficiency. Therefore competent staff is required for an effective internal audit function.

### **Involvement and stakeholder support**

Internal audit functions need to be supported by stakeholders. One of the key principles of auditing is that it must be inclusive in nature. Key players like residents association, line ministries and general citizens should be included in supporting the internal audit function. It is therefore safe to highlight that the internal audit function is fundamental and its independence and objectivity must be promoted. This promotes service delivery in local authorities since internal auditors safeguard resources from abuse.

## **Benefits of upholding internal audit independence**

### **Transparency**

Transparency as a pillar of good corporate governance ensures that administrative decisions, financial transactions and performance should be disclosed so that the state of affairs of the local authority is known. King's report (2002) defines transparency as when an outsider makes analysis of a company. It involves open governance. It is the function of internal audit to provide financial information on the quality of standards on the performance of the organization. Internal audit as an instrument that is used to enhance transparency eliminates fraudulent activities and various forms of corruption in public sector organizations. The principle of transparency ensures that a disclosure system needs to be applied in the management of affairs of local authorities. A disclosure system is composed of financial reporting, auditing and inspection of council financial documents. In local authorities, the committee system promotes transparency because the business of council is conducted in an open manner. The audit committee provide for checks and balances.

### **Accountability**

Accountability is at the core on the management of affairs of an organization. The accountability principle reveals the reasons for the organization's actions and conducts. Increased administrative efficiency and effectiveness is a result of accountability noted that accountability mechanisms are comprised of internal auditing and the procedures of whistle blowing. One needs to note that there are various legislative provisions that promote accountability. The RDC Act provides for administrative accountability. Administrative accountability is composed of financial reporting, provision of reports and preparations of financial statements. Section 134 of the RDC Act provides for the appointment of auditors. The auditor appointed on section 134 of the RDC Act has the obligation of

auditing financial books, assets and records of council. Effective and economic use of public resources brings about high quality in the provision of goods and services in public sector organizations.

Furthermore, the accountability tool ensures that the resources of the organization are used for the purpose they are intended to. This has limited all forms of abuse of council assets. Accountability ensures that the business of council is conducted through a committee system. In promoting accountability the RDC Act gives the minister powers to oversee council operation especially on financial matters through auditing. The act promotes accountability through the ministerial directives. Accountability promotes good governance.

### **Improved financial management**

Financial management according to [11] is the financing and management of assets. Effective financial management of organizational funds and assets is crucial. Financial management is concerned with the inflows and outflows of organization's resources. Internal auditing therefore is concerned with how the organization's funds are managed [12] notes that risk management relate to effective financial management. It is important to reiterate that internal audit needs to ensure that the organization complies with risk mitigation measures [13,14] highlighted that audit provide evidence as to whether the organization adheres to clearly laid down financial procedures. Internal auditors conform to key audit functions outlined in the Public Finance Management Act. These functions promote effective utilization of resources thereby promoting improved financial management in the public sector. The act shall give internal auditors the obligation to ensure that organizations stick to proper accounting recording, adequate internal checks and balances, asset management and ensuring that financial procedures are followed. Therefore internal audit should have the ability to improve financial management and internal control systems of an organization.

### **Improved risk management**

Internal audit control structures of local authorities are crucial to the safeguard of the organization. Local authorities need strong internal controls to ensure that they are not exposed to risk. Risk management involves identification, controlling, measuring and identifying risks within the organization. Internal audit is expected to ensure that the organization has effective internal controls to facilitate effect risk management. Effective risk management promotes transparent and effective resource utilization in public sector organizations. Many local authorities have been subjected to risks that lead to poor organization performance. Organizations risks include corruption and misappropriation of organizations funds. Risk management gives the internal auditor powers to unearth all forms of unethical practices. Therefore internal audit should have the capacity to improve risk management to promote efficiency in organizations.

## CONCLUSION

In the light of the above discussions internal audit can only be solid when independence of it is upheld. The paper presents challenges faced by local authorities in promoting internal audit independence, key instruments in promoting internal audit as well as benefits of promoting internal audit independence.

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