

The implementation of the internal audit function in a regional governance system

La mise en œuvre de la fonction d'audit interne dans un système de gouvernance régionale

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Abstract

The analysis of regional administration's governance renders it possible to put at the forefront the issue of whether or not setting up an internal audit function would help improve its perception by miscellaneous stakeholders; hopefully contributing as a result to the establishment of a good governance system.

The constraints of this function and the resistance to change represented by its implementation represents a certain risk of failure when it comes to achieving good governance objectives set by the regional authority and this is indeed a fear clearly expressed by regional officials.

This resistance is not unrelated to the confusion that still persists among actors in the region, officials and managers, as well as between the two functions of audit and inspection.

The purpose of this paper is to study to what extent internal audit facilitates the establishment of a good regional governance system, suited for various stakeholders. We illustrate here that, the professionalism of internal auditors, their independence and their impartiality will hopefully enable the decrease of resistance to this system, especially when managers find a common interest in the conclusions of the audit missions in terms of creating added value to their management.

Keywords: Internal audit; Governance; Regionalization; Resistance to change.

Résumé

L'analyse de la gouvernance dans l'administration régionale permet de positionner la problématique de la mise en place d'une fonction d'audit interne, en mesure d'améliorer sa perception par les différentes parties prenantes contribuant ainsi à l'instauration d'un système de bonne gouvernance.

Les contraintes de cette fonction et la résistance au changement que représente son implémentation constituent un risque d'échec certain de l'atteinte des objectifs de bonne gouvernance dans la région et c'est une crainte clairement exprimée par ses responsables.

Cette résistance n'est pas sans lien avec la confusion qui persiste toujours chez les acteurs de la région, fonctionnaires et responsables, entre les deux fonctions d'audit et d'inspection. L'objectif de ce papier est donc d'étudier dans quelle mesure l'audit interne permet d'instaurer un système régional de bonne gouvernance approprié par les différentes parties prenantes. Nous y montrons que le professionnalisme des auditeurs internes, leur indépendance et leur objectivité permettent dans une certaine mesure de réduire les résistances à ce système, notamment lorsque les gestionnaires trouvent un intérêt dans les conclusions des missions d'audit en matière de création de valeur ajoutée à leur gestion.

Mots clés : Audit interne ; Gouvernance ; Régionalisation ; Résistance au changement.

Introduction

In recent years and with the new salient requirements manifested in favor of public administration, Morocco, just like many other countries in the world, has heavily invested in the implementation of reforms aimed at modernizing the legal, institutional, economic, and financial arsenal in the public sector.

Direct marketing, which is already present in the private sector, is empirically shown to contribute, at the local authorities' level, to the reconsideration of management sciences' importance, among other applied disciplines, when it comes to the strategic aspects of public administrations' management. (Haddad, 2022).

Following in the footsteps of public organizations and companies; local authorities, as main partners in the national development process, ought to align with the requirements of good governance, of which internal audit is an intrinsic part (Bertin, 2007). Indeed, regions and other local authorities, as essential actors in territorial development, are called upon to put the citizen as the focal point of their concerns (Haddad, 2022) and should incontrovertibly start by overseeing their internal environment with a firm hand (Bonnard, 2009). This should only be rendered possible if they indeed do have an efficient internal audit system, reflecting an up to standard capacity in achieving any set objectives as opposed to the allocated resources, contributing jointly with other adapted tools, under the constraint of all incurring risks. This shall result in achieving the desired performance and in drawing things to a close the much sought after long term development.

If internal audit plays a role in the founding of a healthy governance system, this role is all the more important when it is part of a regional context that firmly calls for thwarting our economy from being mired in a most unwanted recession. This context is, as a matter of fact, marked by:

- The dynamism of major projects instigated to strengthen the accomplishments of our country in areas such as citizen democracy and reinforcing the rule of law;
- The triptych consisting of:
 - The requirement of transparency when it comes to financial communication on a regional level
 - Good governance of public resources
 - The need to adapt to the rise of the decentralization process and advanced regionalization;

- The need to reduce, set right and control public expenditure
- The miscellany of risks attached to often heavy financial arrangements, subsidies and financial agreements between local authorities and other organisms alike
- The non-extendable nature of public resources and the dwindle in State allocations all the while maintaining a certain level of quality of service
- The positive expansion of the decentralization process as a real leverage for development not to mention the imperative transfer of responsibilities to local authorities, as the latter are permanently faced with the harsh task of tackling the need to improve their performance in order to institute a new, more transparent and more proficient governance in the face of probable shortcomings.

In this context, the question we're setting out to answer through this paper is the following: "How could it be rendered possible to set up an internal audit function, able to perk up its perception by the numerous stakeholders in the region?"

To answer this question, we will start by highlighting the role of internal audit in a good, healthy regional governance system. We will then assess the experience of different regions when it comes to implementing internal auditing through a wide array of risk assessment procedures.

1. Internal audit for a regional good governance system

In a context of liberalization, openness and globalization, new demands are being expressed on public administration to achieve good governance and overall satisfying performance.

Regions and other local authorities, as essential actors in territorial development, are called upon to place the citizen at the heart of their concerns and thus ought to routinely set in motion the mastery of their internal environment. This shall only be feasible should they have an effective internal audit system that reflects aptitude in achieving set objectives with regards to the allocated resources (Bertrand & Moquay, 2004).

Furthermore, one should not forget that Internal auditing in local authorities in Morocco originates, just like several modern management techniques, from the private sector. It is an Anglo-Saxon concept from the business world that has developed in the public sector with the concept of new public management. Though one should not forget, the concept of internal auditing is not recent either, as the IIA-MAROC saw the light of day in 1985 initially under the name of the AMACI (or Moroccan Association of Internal Auditors and Consultants).

Therefore, in a context patent with the many aspects of globalization, competitiveness and the development of new information technologies, the need for rationalization and moralization of public management has become imperative, hence the speech of His Majesty King Hassan II in July 1993 addressed to the then Prime Minister: "the audit is now common practice in companies and businesses. You will have it carried out in all the public organisms where it is needed."

1.1. A constitutional movement in favor of the rules of good governance

The principle of good governance and the correlation between responsibility and accountability has definitively been enshrined in the 2011 Constitution, more precisely in its first article. Hence the commitment for local governments to translate, in practice, the principles of good governance: to improve their relations with users, add moral values to public life and to lay a solid ground for a modern, effective and efficient local administration (Chhotray & Stoker, 2009).

The year 2015 was, as a matter of fact, marked by the promulgation of organic laws that identify and classify the competencies of each territorial level.

Indeed, following the provisions of Article n°146 of the Constitution, each territorial level (regions, prefectures, provinces or communes) is now endowed with its own organic law that highlights their respective governance rules concerning the proper functioning of free administration, accountability, action evaluations and control of fund and program management. For any further inquiry, one can refer to Law N° 111-14 relating to regions, Law N° 112-14 regarding prefectures and provinces and Law N° 113-14 on communes.

It is within this framework that organic law N°111-14 on regions has introduced a number of rules concerning governance. Indeed, Article 246 in its first paragraph clearly states "The region must, under the supervision of the president of its council, adopt the evaluation of its action, implement internal control, resort to auditing and present the balance sheet of its management ..."

In this context, internal audit is, as a matter of fact, one of the essential instruments enabling communes to give substance to the principles laid down by the Constitution and by the above-mentioned Organic Law N°111-14, particularly with regards to the implementation of good governance.

1.2. Regional internal audit actors' appropriation

During our investigations, we deemed it relevant to include, in addition to a detailed questionnaire on the practice of internal auditing within local authorities, an interview guide which highlights various questions on the perception of this mechanism by local officials, given the importance of their role and their contribution to the instantiation of the mechanisms in question as fundamental instruments at the service of local governance.

We seized the occasion to get different opinions and perceptions from territorial managers during interviews, but also through a day of awareness for the programs of setting up internal audit cells in the region on Wednesday, January 13th, 2021, at the headquarters of the General Directorate of Territorial Communities (DGCT) in Rabat.

Among the main actors interviewed in the Ministry of Interior, we have picked managers and executives of the DGCT, as well as managers and inspectors of the IGAT (General Inspectorate of the Territorial Administration). As for the 12 regions of the Kingdom, we have chosen the presidents of the regions, the services' general directors, as well as the president of the Association of Regions of Morocco (ARM).

This awareness day had a double purpose. On the one hand, to get the managers of the 12 regions to adhere to the process of setting up the internal audit function in order to set up the necessary conditions for the project's success, and on the other hand, to set up the grounds for the interventions of the internal auditors of the regions.

We can thus see that the issue of regional governance as seen from a political dimension based on the relationships between various actors raises the question of regional development. In the case of an organized regional territorial network, governance endorses understanding between actors, whether they are public institutions, local authorities, companies or associations, and puts the premises for action, based on consultation and coordination.

It is therefore a matter of new up-to-date modes of territorial management (Bertrand and Moquay, pp. 77-95) where regional governance mobilizes coordination dynamics that affect actors relationships who are different in nature, status and role in order to hold contracts (according to Williamson, 1981) on a project or program between partners intended to be stakeholders in regional development.

Since then, local business management has undergone a paradigm shift by adopting new management methods from the private sector, including the broadcasting of the culture of internal control, internal audit and good governance.

In this context, and according to the results of the study, the actors are aware that the implementation of internal auditing within the regions aims first and foremost to build up the governance mechanisms within the regions, by providing them with entities skilled enough to carry out internal audits with the dual purpose of improving the functioning of their management systems and thereby becoming part of the reinforcement of the principle of accountability and the discharge of the provisions of the law with regards to the regions, which stipulates a certain number of principles of good governance.

Another observation shared by the various stakeholders is that internal audit is also one of the instruments that will provide a practical dimension to the execution of the several provisions of the Constitution and the implementation of all new measures introduced by the organic law on regions (n°111-14) and the strengthening of decentralization.

Regional actors deem the internal audit process to be "very important" for the growth of performance and decisions of the regional administration. As a matter of fact, it ensures the efficiency and effectiveness of its performance in meeting regional development goals all the while taking into consideration the miscellaneous challenges of spatial development with respect to citizens, civil society and investors' expectations.

The regional actors note that internal audit will also perk up the administrative management's performance on a regional level, adopting an approach based on logical analysis and quantitative as well as qualitative risk assessment, proposing thus ways to improve. Furthermore, one should not forget that the General Inspectorate of Territorial Administration's audit reports have acknowledged a few discrepancies in the regions' administrative management, often due to the absence or inoperability of internal audit. As a matter of fact, six of the twelve regions of the Kingdom barely have any structures or at best do have weak structures for internal audit. The rate of implementation of external audit recommendations by the General Inspectorate of Territorial Administration (IGAT) and the General Inspectorate of Finance (IGF) differs from region to region, reaching 70% in some regions, while in others it did not exceed 11%. In fact, this poses a significant risk for these local authorities, mainly with the increase of their financial resources. This observation is supported by the magnitude of budgets allocated to each region, which have increased from 12 billion DH in 2016 to 24 billion DH in 2018.

According to territorial and central officials, the effective implementation of internal audit could even be considered as an indicator of the existence of a culture of responsibility and accountability within the regions.

2. Assessment of the Regions' experience in implementing internal audit

The evaluation of the internal audit's degree of appropriation of in the region can be assessed once risks that could compromise its objectives have been identified through themes already branded by the a mixture of territorial and central actors, namely: human resources, the organization and functioning of the internal audit unit, the relationship of the latter with the region's council, the carrying out of the two test missions, the assessment of the internal audit approach's degree of appropriation and the appraisal of potential risks that may perhaps compromise the objectives of the audit in the region.

2.1. Potential risks to internal auditing in the regions

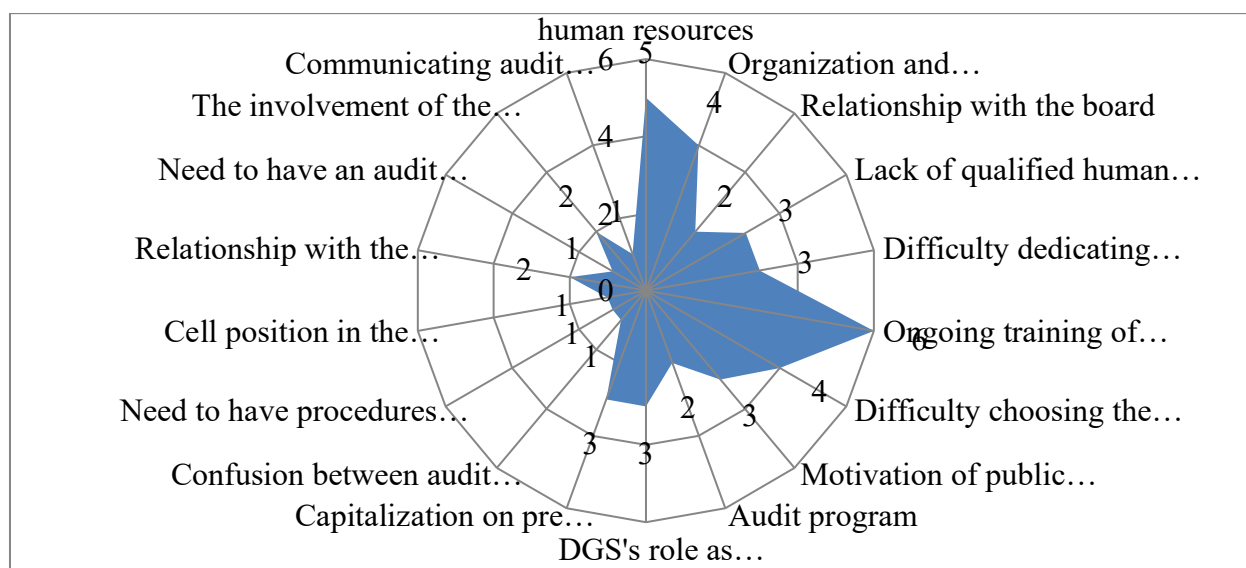
Two years after the launch of the program initiated by the DGCT regarding the process of an internal audit function being set up within local authorities, we reckon it would be appealing to carry out an intermediate or to the very least a mid-term appraisal to identify the plausible constraints to the audit approach appropriation and to eventually pinpoint the success factors that will most likely enable the process to get back on track.

Thus, this work is based on the experience of field missions carried out by regional internal auditors, namely:

- Practical and very matter-of-fact missions concerning the spreading of the internal control culture by accompanying managers in the elaboration of each region's risk mapping and assessment
- Two audit test missions carried out in the 12 regions of the Kingdom, i.e. a total of 24 internal audit test missions.

All the questions raised by the different actors - presidents of regional councils or their representatives, DGSs, managers and internal auditors - concerning the implementation of the internal audit function in the regions can be illustrated, by frequency, as follows:

Chart N°1: Breakdown of the issues addressed in the interventions of the presidents of the regional councils and the services General Directors



Source: The authors

This chart demonstrates the variety of issues raised, ranked by occurrence, and provides information on regional managers' different concerns in relation to the implementation of the internal audit function.

2.2. Analysis of the risks relating to internal audit's implementation in the regions

Thanks to the various missions, this work has thankfully made it doable to assess the diffusion of the internal control culture through the improvement of risk mapping in each region and to weigh up, at least halfway through, the degree of internal audit appropriation in the region through the main questions raised by the regional councils' presidents or their representatives, with regards to the internal audit function's implementation in the regions.

2.2.1 Internal Audit's Relationship with Regional Stakeholders

In short, we have chosen in this study to bind ourselves to the central, decentralized, and deconcentrated actors, not to mention private actors in the region as well, including NGOs. Generally speaking, central officials (notably the DGCL or the Interior Ministry) insist, on the one hand, on the direct link between internal audit and good governance, and on the other hand, on the positive impact an internal audit entity implementation can have on the proper running of regional management systems, not to mention the quality of the services provided. Indeed, this function aims first and foremost to reinforce governance mechanisms within the regions, which is why it makes it a point to provide them with entities capable of carrying out

internal audits with the dual objective of bettering the performance of their management systems in mind (Portelli, 2012). This process thereby becomes an integral part of the principle of reinforcing accountability as well implementing provisions of the organic law with regards to the regions (Law no. 111-14 which lays down a number of good governance principles).

As for the regions, the decentralized and deconcentrated territorial actors have insisted, for the most part, on their predisposition to be an adjunct to the internal audit's program setting up; making it a means of building capacity and momentum, particularly in the internal audit departments and despite the prevailing unavailability of qualified human resources for the job of internal auditor. However, they stress the urgent need to assist the regions and embody the principles of good governance. Indeed, the internal audit function, as they clearly state, will include various areas: financial, accounting and operational audit.

As for private actors and NGOs, they regard the implementation of an internal audit function within regional councils as a predominant part of the advanced regionalization and administrative deconcentration process (Ouazzani, 2018). These actors perceive it, as a matter of fact, as an indicator of the existence of a culture of responsibility and accountability within the regions, which aspires to secure achievements through good territorial governance promotion (Jiraoui & Elgraini, 2020). However, they do insist on the importance of involving the presidents of local authorities, particularly on a regional level as well as in all phases of internal audit missions in order to achieve any intent attached to it (Renard, 2017).

To sum it all up, it must be noted that the internal audit is intrinsically and unequivocally part of the apparatus that will give a practical dimension to the implementation of the provisions of the Constitution and the operationalization of all new others brought by the organic law regarding the regions strengthening thereby decentralization. The implementation of this function will, indeed, ensure the efficiency and effectiveness of regional action performance in order to meet the objectives of regional development; taking of course into account the many challenges of spatial development, citizens' expectations, civil society and investors (Bœuf & Magnan, 2008).

One of the many elements that raised the most questions was the relationship between the internal audit entity and the regional council. The basic question expressed was, in fact, whether or not the internal audit function was an administrative function and therefore confined to the sphere of administrative management by the council president, the DGS and

regional staff, or whether it was merely an accountability mechanism, whose function would be to notify the council about management.

2.2.2 Human resources dedicated to internal audit in the Region

The issue of human resources and the availability of suitable profiles was the focal point of concern the regional council chairmen and the services' general directors pointed fingers at. A detailed analysis of the various issues raised in the context of human resources has indeed shown that the main concern of the chairmen of the regional councils and the departments' general directors was the ongoing training of human resources.

2.2.3 Organization and functioning of the internal audit unit

The organization and operation of the internal audit unit was the second topic that raised several questions from the regional council chairmen and department directors.

This research has shown that in order for the internal audit function to succeed in the regions, it is indispensable to provide a set of components, the most important of which, would be the approval of the audit charter by each regional council, the absolute independence of the auditors from the management services, the professionalization of the internal audit function, and finally the use by the council of the internal audit reports' results.

Conclusion

In conclusion, we consider that the implementation of an internal audit entity would only be favorable and advantageous as it would constitute a great contribution to the region. As a matter of fact, this function will most likely enable the region to remedy the shortcomings often denounced by external audit reports (IGAT, IGF, CRC, etc.).

Notwithstanding anything to the contrary, it should be stressed that the efficiency and effectiveness anticipated from this system depends not only on the variables mentioned above; mainly the proficiency of human resources, steady and incessant training, the board's involvement and motivation, in addition to the impartiality of the auditor's opinion, which should be pledged and guaranteed by his independence and compliance with standards of professional conduct and common ethics.

We shall add that the spreading of risk culture and internal control, as well as the successful implementation of the internal audit function in the regions are considered to be major key success factors when it comes to good regional governance system.

At this point, it is clear that this research has thankfully been able to draw a few conclusions with regards to internal audit appreciation through the eyes of the regional governance structures. Firstly, when it comes to its relationship with the region's stakeholders, its pursuance within the regions could not be done without sufficient involvement of the regional council.

It would also be more advisable to base success on good communication practices, whether it be, if only for a moment, through the approval of an internal audit charter by the board, including communication, for informational purposes, of the internal audit unit's reports, or at least providing punctual summaries, to the regional council, at a frequency that has been agreed upon by the president and his board (Charreaux, 1997).

Regarding the topic of human resources and the availability of suitable profiles, it has come to our attention how burdensome it may be to hand-pick the right people, thus limiting regional managers in their process of choosing the right prospects for the internal audit function. To remedy this, managers are offering to reinforce continuous training for both auditors and managers. On the public servants' side, the lack of stability in positions of responsibility does not favor the establishment of clear motivation mechanisms and curbs the enthusiasm and hunger when it comes to applying for internal auditor and responsibility positions.

With regards to the organization and functioning of the internal audit unit, the detailed analysis of the aspects addressed within the framework of this article indicates that the heads of the regions, in particular the DGSs, play a very important role for the project's success.

Also, we might add, for all intents and purposes, that the existence in a few regions of a pioneering work relating to the development of risk mapping, risk assessment procedures as well as audit charters, could be considered to be a solid footing on which internal audit functions' implementation can rely on.

Furthermore, it goes without saying that regional managers are fully aware of the strategic nature of the multi-year audit program. In fact, they even view it as an apparatus conceived to optimize all the efforts to be deployed by auditors, but also as a means of risk monitoring.

However, the resistance to change which is by and large the prevailing unwillingness to adapt to altered circumstances consecutive to the implementation of an internal audit structure within the region, may represent a hurdle, or a risk at best when it comes to achieving goals and objectives. This fear is, as a matter of fact, clearly expressed by regional managers. It goes without saying that this resistance is not unrelated to the confusion that could still be

persistent amongst actors in the region, public servants and managers, or between the two functions of audit and inspection.

However, the professionalism expected from auditors will most likely make it feasible for local and regional instances to curb this resistance; with managers resorting for the most part to ironclad arguments or unearthing common and shared interests in terms of creating value. The unequivocal conclusion is that when effort is coupled with orthodox and systemized competencies, things can hopefully be done the right way.

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