



## The impact of internal audit on global public management performance in Morocco

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### ARTICLE INFO

#### Keywords

Internal audit  
System model  
Maturity level  
Governance  
Global performance  
Public sector

### ABSTRACT

Morocco has not left behind in terms of developments in the world in terms of improving control and audit techniques. As part of the new public management, Morocco has introduced several laws for the implementation of the internal audit function and its generalization within the public sector. Nevertheless, several public organizations are making efforts to achieve optimal. The main interest of our research is to define the determinants of internal audit that positively affect the global performance of public management.

### Introduction:

Internal auditing is about assessing the effectiveness and efficiency of operations; compliance and adherence to laws, regulations, policies, and procedures; achievement of organizational or operational objectives; reliability of information; and safeguarding of assets. Internal auditing has evolved over the years to gain recognition from senior management and organizational leaders, adapting its approach to the new needs dictated by a global environment. For a long time, the profession focused on a particular area; financial reporting, compliance business processes, risks and controls.

Today, internal auditing addresses a combination of these elements through integrated audits and compliance assessments. Auditors have never stopped searching for the truth, monitoring transactions, and preventing or detecting fraudulent behavior. Internal auditing is therefore an independent and impartial information-gathering exercise, which aims to provide verifiable information to management or external parties. In this context, the establishment of an internal audit function is necessary to improve the performance of public management. The objective of our article is to demonstrate the determinants

of the internal audit function that contribute to the global performance of public management. The interest of our research also lies in determining the importance of the existence of an internal audit function for so-called optimal public management. Morocco is not left out of the developments that the world has known in terms of improvement of control and audit techniques. As part of the innovation in public management, it has established several laws for the implementation of internal audit within public institutions. Nevertheless, several of them have not yet set up an entity specialized in internal audit. The main interest of our article is to demonstrate the theoretical approaches that show the positive impact of internal audit on the global performance of public management in its two organizational and economic dimensions.

Our research question is what are the determinants of internal audit that positively impact the global performance of public management?

Thus we will present the determinants of internal auditing that have been demonstrated by several theoretical approaches and that constitute an optimal combination for global performance.

## 1. Internal audit in the Moroccan public sector :

In a context marked by the modernization of public management and openness to the international environment, several Moroccan administrations, institutions and public ministries have opted for the practice of auditing to modernize their management tools. During the month of August 1993, the internal audit was introduced in Moroccan public companies following a royal letter addressed by the King Hassan II to the Prime Minister, encouraging him to submit the Administrations and Public Establishments to the Audit; "the audit is now common practice in companies and enterprises. You will have it carried out in all the public establishments where it is felt". The advent of the concept of good governance and the conception of the Moroccan Code of Good Governance Practices for Public Establishments and Enterprises in 2008 accelerated the implementation of public auditing as well as the decision that organizes the auditing function of public enterprises under the supervision of the Ministry of Public Works (DPE 113/70/16 of 23 September 1993). Thus, a legal arsenal was put in place including legal and regulatory texts to strengthen the practice of public auditing. In this wake, the Decree of March 20, 2013 on public procurement involves mandatory auditing for all state contracts whose amount exceeds five million dirhams. The evolution of the internal audit function on a global scale has led to its introduction in the Moroccan public sector. Since 1987, international organizations (COSO, INTOSAI, IMF, WB) have advocated the establishment of internal audit in the Moroccan public sector, so this function appeared following an influence of international order and then national by the "Royal Letter of 1993, Pressure of reforms" (Ait mouzoun and El mezouari, 2018). Nowadays, the internal audit has become more of a real necessity than an obligation. In this sense, Azzarradi and Fikri (2018) point out that at the management level, Moroccan institutions and public companies are increasingly interested in the practicality of auditing practices and are starting to set up an audit unit, service, department or direction. The goal is to achieve the targeted objectives and accelerate the implementation of the "New Public Management". This innovative concept aims to improve the efficiency and global performance of public management, promotes the principle of transparency and improving the quality of information provided and the accountability of managers and decision-makers while ensuring good governance of public

organizations. Following the royal speech delivered on July 2017, which advocates the strict application of the provisions of Article 1 (paragraph 2) of the Constitution on the correlation between responsibility and accountability, this managerial necessity has become mandatory from a regulatory point of view. Moreover, the Moroccan public sector is characterized by the separation between accounting officers and authorizing officers, as is the case in France. In a logic of applying the principle of managerial accountability, the sharing of control responsibility between accountants and authorizing officers through control and audit entities is essential in all organizational structures of authorizing officers. Several regulatory texts and provisions are a true illustration of the public sector's desire to generalize the IA:

- Decree n°2-05-1369 of 29 Chaoual 1426 (December 2, 2005) which stipulates the rules of organization of ministerial departments and administrative deconcentration,
- the organic law n°130-13 relating to the finance law,
- the decree n°2.07.1235 of November 4, 2008 on the control of State expenditures;
- the decree relating to public contracts n° 2-12-349 of 8 Joumada Ier 1434 (20 March 2013). These structural reforms aim to ensure that all ministerial departments, authorizing officers and public accountants set up functional internal audit entities to perform this useful function.

## 2. Internal audit and the "New Public Management" theory :

The New Public Management (NPM) is a political and economic reference framework initiated by the World Bank in the 1990s to serve as a guide for the modernization of state services (Y. Pesqueux, 2020). The emergence of a new system within public institutions requires the establishment of a legal arsenal (laws, decrees, circulars, regulations, etc.). In addition, it's necessary to refer to a solid base, principles and standards recognized at the international level for its application. The modernization of public management has accompanied the advent of several budgetary reforms, which has created the need to update the legislation and create a legal basis for the implementation of the NPM. There is also an internal audit manual, an internal audit charter and the code of ethics that can also be a reference for the application of the function (A. Cohen, 2012). According to Cohen Alain-Gérard, many African and European states, whether emerging or developing, are very interested in the law, contrary to liberal countries which do not respond to the maxim "everything

that is not forbidden is permitted" but, conversely, "nothing can be done if the law does not provide for it.

The adoption of a legal and statutory framework is therefore necessary for public auditors and managers to adapt to the new internal audit practices and to act according to well-defined standards. This framework can only be modified by law. In Morocco, for example, the change in the budgetary system required the introduction of a law in addition to an organic law relating to the finance law n°130-13 (LOLF) to provide a framework for the new budgetary reform. It is therefore necessary to develop a legal culture in order to structure the steps for conducting an internal audit in public establishments and by force of law to oblige any public establishment to create an internal audit function. The implementation of an effective public financial management (PFM) system plays a key role in the development policy process. Good public financial management is the link between available resources, execution and the achievement of government policy objectives. It's a tool that aims to establish a standard method and reference tool for the diagnostic assessment of public financial management. The public sector is constantly faced with developing budget strategies and plans based on financing policies, and it also analyzes how budget decisions are implemented. Evaluation thus examines the controls the government has in place to ensure that resources are obtained and used as intended. Transparency and due diligence of audits, as well as dialogue on public financial management policies and actions. The system, laws, regulations and standards adopted in the process, it also examines key factors such as the rate of budget execution compared to what was planned, the effectiveness of control measures, the timeliness of reporting and auditing, etc.

### **3. Pioneering approaches to internal audit performance in the public sector :**

The audit process is designed to highlight deficiencies and errors in order to help the organization rectify them or prevent their recurrence (Fayol 1949). Arena and Azzone (2009) show that the effectiveness of the design is influenced by the characteristics of the internal audit team, audit processes and activities, and organizational relationships. They also found that the effectiveness of internal auditing increases particularly when the ratio of internal auditors increases, the head of internal auditing is affiliated with the Institute of Internal Auditors, the institution adopts control risk self-assessment techniques, and the audit committee is involved in the activities of internal auditors. As such, internal audits are fundamental mechanisms for reliability (Weick and Sutcliffe 2007) and

continuous performance improvement. In the positive agency theory (PAT) or in other words the theory of organizational architecture, we find the alienability and the organizational rules of the game which consists in the creation of a control system, differentiating the system of measurement and evaluation of performance (G. Charreaux, 2000). Efficiency depends essentially on the ability of the members of an organization to exploit knowledge that has so-called relevant value, to guide decisions. The major concern of the founders of TPA was to provide managers with an analytical grid enabling them to understand the impact of the organizational structure on performance and to guide their actions and decisions. The theory of New Public Management "NPM" (Morin, 2014) aims to infuse the public sector with innovative tools from the private sector and a culture based on results and performance (Damien Bo & Philippe Luu, 2011). NPM is not only a simple transfer of private sector practices to the public sector but also the consideration of public sector issues.

- Audit is at the center of the reform program initiated by the NPM: internal audit advocates a new form of control, and participates in the implementation of a new culture. A culture focused on results and performance measurement;
- The principle of accountability is the cornerstone of NPM-type reforms (Pesqueux, 2007), which explains the use of audit and control.

The combination of several theories makes it possible to consider both the socio-economic and behavioral aspects as well as the different dimensions related to the impact of the internal audit function on the global performance of public management, namely the achievement of the triptych effectiveness, efficiency and quality. Since the 1980s, several researchers have tried to define performance (Bouquin, 1986; Bescos et al., 1993; Bourguignon, 1995; Lebas, 1995; Bessire, 1999, etc.). Global performance is a broader concept with a multiple character, it is defined by multidimensional criteria and not by a single organizational, economic, social and environmental measure (Baret, 2006), (Lepetit, 1997), (Renaud, Berland, (2007)) (Germain and Trébucq, 2004). Other researchers such as (Reynaud, 2003), (Brammer and Millington, 2008), (Berman et al. 1999), (Hart and Ahuja, 1996) have determined three dimensions measuring global performance, including economic performance. Regarding organizational performance, it's the way in which the organization works to achieve its objectives and the way in which it manages to achieve them (Marie. C. Morand, 2008). Nowadays, it has become difficult for public and private organizations to

measure the interactions between the dimensions of performance. In our case, we have limited ourselves to a performance with two dimensions: organizational and economic, since we were unable to find links between the internal audit function and the other two dimensions (social and environmental) in the public sector. Within the framework of the "New Public Management" theory, which implies the implementation of new modes of public management, and in application of the principle of accountability, internal audit has emerged in the Moroccan public sector to improve the management process as a whole. In its definition, internal audit evaluates the process of corporate governance, the theory of governance has also allowed to renew the analyses concerning the comparison of the performance of economic systems. Moreover, the positive agency theory states that efficiency depends fundamentally on the ability of the members of the organization to use the so-called relevant knowledge, which is of value for decisions. Through its recommendations and its broadened scope of intervention, the internal audit function can inform the actions of top management and guide its decisions. While the stakeholder theory is mainly used for understanding and analyzing the relationship between top management and/or other members or entities of the organization and the internal auditors, which are considered as stakeholders that influence the achievement of objectives and contribute to the explanation of the effectiveness of the internal audit. The strategic actor theory can be combined with the stakeholder theory to understand the conduct of internal auditors within an organization while considering their qualifications, relationships, and interdependencies with other actors, particularly top management and audited. The quality of the internal audit service is a real requirement for the organization's members to the organization to view internal auditors as effective contributors to the organization. The neo-institutional theory, on the other hand, will help to ensure the level of compliance with the norms and rules of practice of the function and the effectiveness and performance of the function. The introduction of the internal audit function within public institutions also refers to the transaction cost theory insofar as the audit function has been internalized within the public sector because the use of external auditors was generating high costs for the organizations. According to the transaction cost theorists Coase (1937) and Williamson (1975), unlike the market, the firm is considered to be a mode of organization that makes savings on transaction costs. Indeed, economically, "what distinguishes firms from markets is the ability of firms to internalize certain

transactions and to carry them out at a lower cost than if they had been carried out in markets" Ebondo and Pigé (2002). This is how the managers of companies, especially the large ones, have been led to internalize most of their legal audit work through the establishment of internal audit departments and the recruitment of auditors, and to transfer to the latter the execution of compliance control and verification work, since recourse to external auditors was generating high costs for the firm. The internal audit function appears to be an appropriate institutional framework for good governance in the sense that it contributes to reducing costs and thus improving performance. The social learning theory and the human resources theory support this idea and consider that a high level of professional competence is essential and that it is important to train its internal auditors for greater effectiveness, efficiency and relevance of the function. If the function has a good human capital it will be able to fulfill its role and improve the performance of the organization. In addition, the communication theory is based on the explanation of the importance of a transversal communication between the audited and the internal auditors for the success of the internal audit mission. According to the signal theory, the audit is a signal that reflects the veracity of financial information. The relationship exchange between auditors and audited that emerges during the internal audit activity is crucial, and the social exchange theory is a true illustration of this. These theories are complementary for the construction of a theoretical framework of public management performance induced by the internal audit function. In addition, Frigo M.L. (2002) developed a Balanced Scorecard model for internal audit departments, focusing on ways in which internal audit departments could improve their internal audit performance measurement activities. On the other hand the Common Body of Knowledge (CBOK) which is the largest study conducted in internal auditing has conducted the performance measurement triangle (J.Seago, 2015). Below is a list of the constructs that make up our conceptual model as well as a summary diagram of all the theories used to provide analytical elements for our research question.

Based essentially on theoretical approaches and on a panel of researchers' analysis, this theoretical corpus will help us understand the factors influencing global performance (organizational and economic).

#### **4. Hypothesis formulation and choice of variables :**

Our model has linked three major constructs influencing global performance in its two organizational and economic dimensions. These constructs study several aspects of the

functioning of the state in order to achieve objectives and improve performance. This is the first block of hypotheses "internal audit system model" adopted by public institutions, namely, (H1) organizational independence, which reflects the hierarchical attachment of the internal audit function and its positioning, (H2) qualification and expertise, which represents the level of certification and training of internal auditors, which is an important factor in an environment where the internal audit profession is constantly evolving, and (H3) centralization, which according to J. Diamond, 2002, can be configured in several ways, centralized or decentralized. The choice of a mixed model affects positively organizational performance because the internal audit function is more generalized. A second set of hypotheses relates to the "maturity level of the internal audit function". The following determinants are assimilated to (H4) budget support from top management for the function, which is important for the proper performance of internal audit assignments, (H5) regulatory compliance and international standards (H6) field coverage, which determines the scope of the internal auditor's intervention to see if it covers all aspects and if it cooperates with the external auditor, which is complementary to it, (H7) the operating tools, which help internal auditors to accomplish their missions, (H8) follow-up of recommendations to take corrective action, and (H9) risk management, which must be high frequency to anticipate inherent risks. We formulate a third set of hypotheses concerning the contribution of good governance of the internal audit function to the improvement of the global performance of public management based on the following determinants; (H10) the ethics and deontology of the internal audit profession, (H11) transparency, which relates to the sharing of information between the auditor and the audited and especially the audit report, and finally (H12) process control, which ensures that auditors respect all the phases of an internal audit mission recommended by international practices. The following are the twelve hypotheses formulated from our conceptual research model:

**Construct 1: "The Internal Audit System Model"**

**H1:** Organizational independence improves the organizational performance of public management.

**H2:** Qualification and expertise of internal auditors improves the organizational performance of public management.

**H3:** Centralization of the IA has a positive impact on the organizational performance of public management.

**Construct 2: "The Maturity level of the internal audit function"**

**H4:** The budget support improves the economic performance of public management.

**H5:** The regulatory compliance promotes the organizational performance of public management.

**H6:** The field coverage promotes the organizational performance of public management.

**H7:** Internal audit operating tools have a positive impact on the economic performance of public management.

**H8:** Follow-up of internal audit recommendations promotes the economic performance of public management.

**H9:** The risk management of the internal audit function affects positively the organizational performance of public management.

**Construct 3: "Internal Audit Governance"**

**H10:** The ethic and deontology improve the organizational performance of public management.

**H11:** Transparency in internal auditing promotes organizational performance in public management.

**H12:** Process control has a positive impact positively on the economic performance of public management.

In short, our research aims to develop a new theoretical construct, namely the global performance induced by the existence of an internal audit function, which is undoubtedly complementary to the circle of control formed by inspection, internal control and management control.

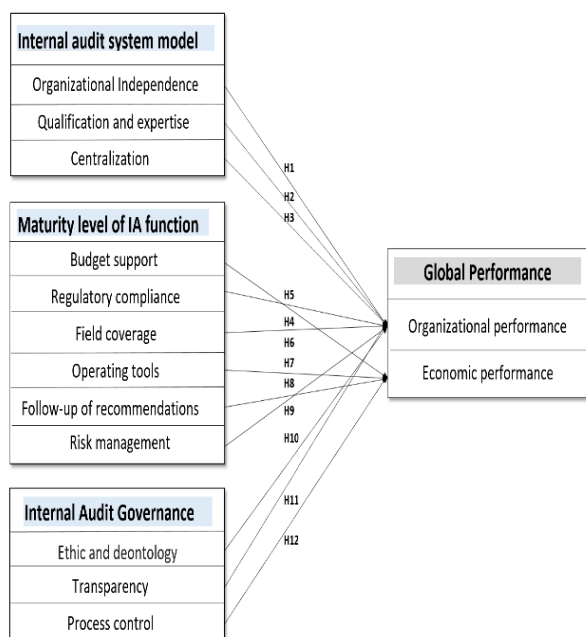
**5. Conceptual Research Model :**

After highlighting the theoretical approaches that support the determinants of internal audit that contribute to the improvement of public management performance, here is the conceptual model of our research that traces the relationships between the independent (determinants) and dependent variables (organizational and economic performance). The model of the internal audit system, the maturity level of IA function and the good governance of internal audit have a positive impact on the performance of public management.

The global performance of public management induced by internal auditing raises questions about the quality, effectiveness and efficiency of the implementation of the function within public institutions. We chose the internal audit system model because it provides information on the degree of independence of the function, its hierarchical position that affects decision-making and the obtaining of useful information. The qualification and expertise allows us to know the level of competence of the internal auditors and the centralization, which allows us to know if the function is generalized at the deconcentrated level. We also chose as a second construct, the level of maturity of the function by formulating six hypotheses. These are: budgetary support

from top management for internal audit assignments, to measure the importance of the function and the budget allocated to it; compliance with regulations, to determine whether internal auditors comply with the qualification, operating and implementation standards recommended by international practices the scope of coverage to know the intervention perimeter of the function, the operating tools that improve the efficiency of the internal audit missions, the follow-up of recommendations that inform us on the adoption of corrective measures recommended in the audit report and the risk management that allows the entity to anticipate the inherent risks that can affect the performance of the public management. A third and last construct was chosen which is governance in internal auditing, we cannot talk about good governance without talking about the respect of the principles of ethics and deontology as well as transparency which must be reinforced for a better performance, we also chose the control of the processes because it informs us on the good conduct of an internal auditing mission by the respect of the phases and on the security of the information which is a key element to the performance of the public action given the confidentiality of the function.

**Figure 1: Conceptual research model**



**Source :** developed by ourselves.

Several studies have analyzed the relationship between internal auditing and performance in the private and public sectors and have found significant relationships through various methods of analysis. Nevertheless, there is many studies that analyzed the determinants of internal audit that positively or negatively influence the global performance of

public management, particularly in its two organizational and economic dimensions in public institutions in Morocco. Our article is part of this framework to contribute to the enrichment of the studies elaborated in this sense. We have chosen a wide selection of constructs to understand and confirm the relationship between the internal audit function and policy performance. Our research argues that agency theory, public choice theory, social learning theory, stakeholder theory, neo-institutional theory, transaction cost theory, strategic actor theory, and social exchange theory allow for the design of a theoretical model of global public management performance. Furthermore, our proposed and evaluated conceptual model identifies the links between the independent and dependent variables reflecting the effect that relates the variables and determinants of IA that significantly contribute to the global performance of public management.

### CONCLUSION:

The perception of the role of the state has developed over time. Long focused on the protection of people and property, it has broadened in such a way that the contemporary state is now seen as increasingly providing services and benefits to its population. In this sense, performance has become paramount; if the state is perceived to be performing inadequately; alternative solutions may be possible to improve the services concerned. However, it should be noted that performance is a dynamic standard: services that were perceived as satisfactory at a given time may now become unsatisfactory. In this sense, a combination of several factors should be established to achieve better organizational and economic performance.

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