

Impact of Internal Audit Practices on Satisfaction of Administrators: A Case in University of Jaffna, Sri Lanka

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Abstract

The main purpose of the study is to find out impact of internal audit practices on satisfaction of administrators in University of Jaffna, Sri Lanka. Internal audit play a major role on overall performance of the organization. Primary data was collected from administrators (academic and non-academic administrators) through developed 5 point likert scale questionnaire. Internal audit practices include internal audit practices related with administrative system review, legal compliance, control on assets usage, control on purchase & procurement and control on payment, research grant & allowance. Descriptive, correlation and regression analysis performed in this study. Descriptive analysis reveals that internal audit practices are in the moderate level based on the administrator's satisfaction however there is below than moderate level internal audit practices related with administrative system review. Correlation analysis confirmed that there is positive significant relationship between internal audit practices and satisfaction of administrators. Further regression analysis confirmed that there is positive significant impact of internal audit practices related with administrative system review, control on purchase & procurement and legal compliance on internal audit quality. According to the findings of the study top management of the university and the government should improve internal audit practices especially they have to improve internal audit practices related with administrative system review, legal compliance and control on purchase & procurement to increase the overall performance of the University.

Keywords: administrators, internal audit practices, satisfaction, University of Jaffna

1. Introduction

Universities are the top level higher education institutions in Sri Lanka. There are fifteen state universities in Sri Lanka which are under the administration of University Grant Commission in Sri Lanka. According to University of Colombo's website (<https://cmb.ac.lk/history>), first state university was established in 1942 which was named as University of Ceylon. It is calling as University of Colombo presently. According to University of Jaffna's official website (www.jfn.ac.lk), University of Jaffna was established in 1974. It has campus with two faculties in Vavuniya further University of Jaffna has eight faculties in 2018.

A huge amount of money spends by the government for the higher education institutions in Sri Lanka. Especially state university has a major portion in the higher education expenses of the Sri Lanka. According to Ministry of Finance's annual report (2017) it can be seen that total revenue was Rs. 1,845,017,336,787 total recurrent expenditure was Rs. 1,945,575,039,924, total public investment was Rs. 657,530,018,379 and budget deficit was Rs. 758,087,721,515. Budget deficit continues in Sri Lanka which is the major economic problem of the country. Here government's tax revenue is not enough to meet the recurrent expenditure of the country.

According to Ranking Web of Universities, January 2019 (<https://www.webometrics.info/en/Asia/Sri%20Lanka%20>), it can be seen that University of Peradeniya world ranked as 2051 and which university ranked as number one in Sri Lanka. Sri Lankan state universities have to improve their performance and try to get a better world rank. All the state university of Sri Lanka are in the position to search ways to improve the performance of the university and increase the quality of the university. Especially high level advanced level performance students get admission to the state university in Sri Lanka according to their advanced level z-score.

According to that state university receive quality input from a huge amount of advanced level students each year. State university has adequate physical and human resources in Sri Lanka. Then state university has the responsibility to maintain its quality and try to achieve top world rank as well as domestic level. Top management of the university could be used and implemented effective internal audit practices to ensure the day to day operation of the university according to the developed plan and the system. Every state university has internal audit division in Sri Lanka.

Generally internal audit division has four major positions such as deputy internal auditor, assistant internal auditor, audit assistants and work aid in state universities of Sri Lanka. University of Jaffna has internal audit branch under the classification of general administration.

2. Problem Statement

The problem can be defined as universities are higher education institutions in Sri Lanka which are producing huge amount of graduates to the country and vital amount of money is spending for the university's activities. Unemployment rate is increasing in every year especially large amount of graduated students are unemployment in Sri Lanka. The unemployed graduate association states that the number of unemployed graduates in the country has risen up to 53,000 (Colombo, News 1st, 21 Mar, 2018 | 9:51 am). According to the central bank annual report (2018), it can be seen that male and female unemployment rates are 3% and 7.1% respectively. Unemployment rate has increased from 2017 to 2018.

According to Ranking Web of Universities, January 2019 (<https://www.webometrics.info/en/Asia/Sri%20Lanka%20>), it can be seen that there is no any Sri Lankan state universities within 2,000 world rank. University of Jaffna ranked as 8th university in Sri Lanka which was ranked as 7th university in 2018. Sri Lankan state universities have to improve their performance and try to get a better world rank. Also University of Jaffna has to improve its performance and achieve a better world and domestic rank. When compare with last year it ranked down one place in Sri Lanka.

There are a several ways to improve the organization's performance here higher education institution is differ from other sector. The primary functions of the university is, provide better teaching and learning environment for the students. Firstly university has to develop a healthy academic and non-academic system with adequate internal control system. Then university should implement the developed system according to the plan.

Internal auditors play a significant role in the day to day operation of the organization and its performance. Generally internal auditors have responsibility to analyses and understand the current internal control system of the organization then they have to develop sufficient and appropriate internal control system then they have to audit on the implementation and report on such implementation. Internal audit covers financial and non-financial operations of the organizations. According to the role and responsibilities of the internal audit division the following questions can be arisen,

- Do internal audit practices impact on satisfaction of the administrators in University of Jaffna, Sri Lanka?
- Is there any association between internal audit practices and satisfaction of the administrators in University of Jaffna, Sri Lanka?

3. Research Objectives

The Main objective of this study is to find out the impact of internal audit practices on satisfaction of the administrators in University of Jaffna, Sri Lanka. The following objectives are considered as sub objectives of this study such as,

- To reveal the relationship between internal audit practices and satisfaction of the administrators in University of Jaffna, Sri Lanka.
- To shows the level of internal audit practices and satisfaction of the administrators in University of Jaffna, Sri Lanka.

4. Literature Review

Rosli, Suzeini, Siti and Asrul (2010) stated audit process is used to ensure that performance and effectiveness of the management of academic department activities and other supporting processes are in line with quality standards in higher education institution.

According to Whittington and Pany (2001) internal audit has primary interest ensure adequate and appropriate internal control system. They have major role to develop and implement a healthy internal control system. They

involve especially in safeguarding of the assets, true and fair financial information, proper usage of organization's resources and non-financial operations of the firm.

Sebbowa (2009) mentioned that internal audit's independence should be established by organizational and reporting structure in the organization. Researcher pointed about the appointment of the internal auditors. Researcher stated internal auditors must compromised their role because they appointed by the top management and they have to report to the top management. According to the researcher internal auditor is also one of the employees of the firm.

Bariyima (2012) found that there is no strong relationship between internal audit practices and government owned companies' financial performance. Further researcher found above relationship did not impact significantly by political. Researcher noted that inadequate and improper implementation of internal audit practices are the major reason for the above poor relationship.

Okezie (2004) fastest globalization, economic reforms and adoption of the international monetary fund and World Bank policy are the major reasons behind the interest of corporate governance practices in the world. Here every country has to think about the internal audit practices in this competitive environment.

Ozuomba and Nwadiolor (2016) found that internal audit can use to find fraud and fraudulent activities of public sector in Imo State. There is a significant number of internal audit departments are functioning effectively in Imo State. They suggested adequate staff and healthy environment should be ensured by the government for the effective functions of the internal auditors.

Issahaku and Muntari (2015) suggested regulators must provide better education for the auditors, users of the financial statements and implement independent government agency to ensure and implement the audit regulations in Ghana. They stated that auditors have the responsibility to share cost between audit firms and their clients.

Mahdi, Ali and Zhila (2009) found reasons for reducing independence are economic dependence of the auditor on the client; audit market competition; the provision of non-audit services; the regulatory framework. Auditors are not able to produce a fair report due to the above causes. Therefore they strongly noted that auditor independence is a key element of the audit expectation gap. Also they recommended that if auditors are independent it reduces the expectation gap.

According to Mohamed and Zauwiyah (2004), there are a wide expectation gaps and misconceptions about audit in Malaysia. Also the findings of the study prompt a serious concern to the auditing profession in Malaysia and they hope that as the proven existence of the expectation gap may eventually lead to severely tarnished reputation and negative perceptions towards the value of independent audit.

Lee, Kerry and Jana (2019) explored the rise of performance audit in Australia and examined its focus across audit jurisdictions and the role key stakeholders play in driving its practice. They found that performance audit growth has continued but not always consistently over time and across audit jurisdictions.

Fatah and Naser (2017) found that role of professionals in the auditing process is not effective as an independent auditor or financial statements provider, as well as the professional experience of individuals in the expectations gap from factors affecting auditing quality, while the size and qualities of the auditing firms were influenced by the expectations gap of individuals in the field of auditing regulation. Based on the literature review of the study it can be seen that there are lack of research in this particular study.

5. Methodology

5.1 Conceptual Framework

The following conceptual model clearly reveals the impact of internal audit practices on satisfaction of the administrators in University of Jaffna, Sri Lanka. Here internal audit practices cover administration system review, control on assets usage, control on payment, control on research grant & allowances and control on purchase. Dependent variable is satisfaction of the administrators which was measured through service quality of the internal audit branch. Conceptual model of this study developed based on the audit plan 2016, 2017, 2018 – University of Jaffna, comprehensive discussion with assistant internal auditor – University of Jaffna, researcher's experience in the field of audit and literature review.

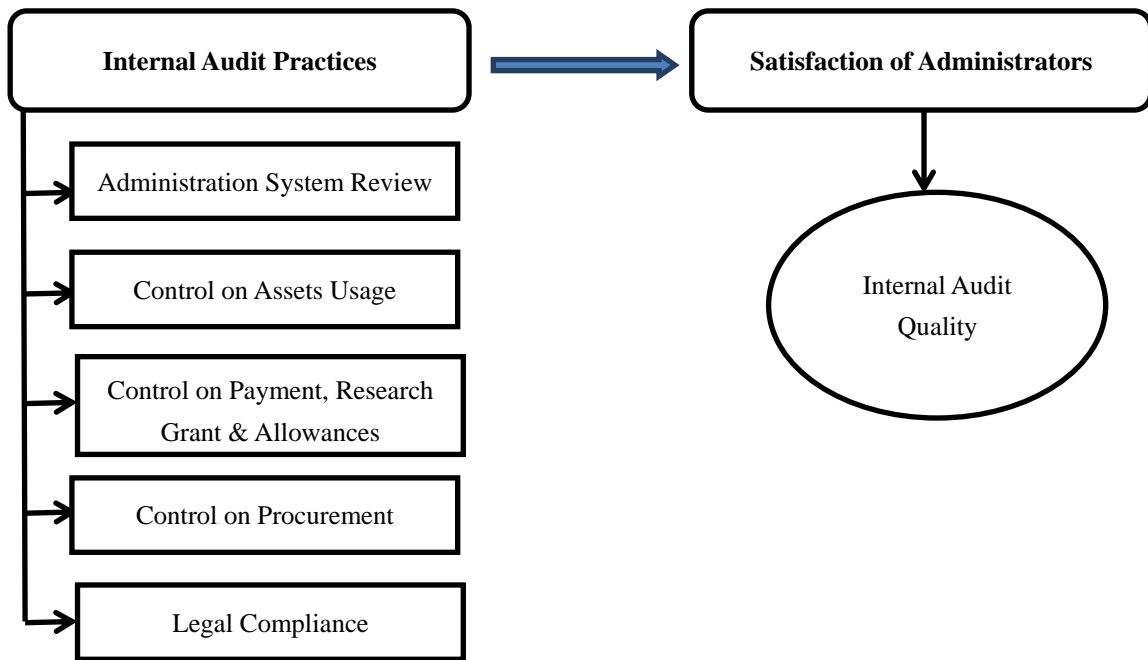


Figure 1. Conceptual Model

Source: Constructed from literature review

5.2 Operationalization of the Variables

The following table very clearly shows about the concept, variables, indicators and measures of this study.

Table 1. Operationalization of Variables Used in the Study.

Concept	Variables	Indicator	Measurement
Internal Audit Practices	Administration System Review	Administration Procedures	Questionnaire (Q ₁ to Q ₁₃)
		Academic Procedures	
		Safeguard of the Assets	
	Control on Assets Usage	Assets Management	Questionnaire (Q ₁₄ to Q ₁₈)
		Inventory Register	
		Board of Survey	
		Segregation of Duty	
	Control on Payment, Research Grant & Allowances	Supporting Documents	Questionnaire (Q ₁₉ to Q ₂₆)
		Financial Regulation	
		Pay Sheet Preparation	
		Research Allowance Payment	
		Utilization of Research Grant	
	Control on Purchase & Procurement	Vehicle Related Cost	Questionnaire (Q ₂₇ to Q ₃₄)
		Procurement Procedures	
		Quality Procurement	
Physical Completion			
Supplier Register			
Capital Work Progress			
Procurement Guideline			
Legal Compliance	Bond Obligation	Questionnaire (Q ₃₅ to Q ₄₀)	
	Disciplinary Activities		
	Quality Assurance Committee		
	Rules & Regulations		
	Legal Problem		
	Assurance		
Satisfaction of Administrators	Internal Audit Quality	Reliability	Questionnaire (Q ₄₁ to Q ₄₈)
		Pre Audit Plan	
		Staff Commitment	
		Knowledge and Ability	
		Effective Internal Audit Report to the Organization	
		Internal Control System	
Adequate Staffs			

5.3 Sample Design and Data Collection

5.3.1 Population and Study Sample

The primary data used in this study which were collected from the administrators (academic and non-academic), University of Jaffna. Here term of administrators cover Vice Chancellor, Registrar, Deans of the Faculties, Heads of the Departments and Deputy Registrars, Senior Assistant Registrars and Assistant Registrars of each Faculty in University of Jaffna. 62 academic administrators and 09 non-academic administrators considered in this study. 71 questionnaires issued and 46 questionnaires received in this study. Response rate of non-academic administrators is 100% however response rate of the academic administrators is below 60%.

5.3.2 Sources of Data

Data of the study collected from the administrators through developed questionnaire. Initially questionnaire of the study prepared based on the audit plan and comprehensive discussion with assistant internal auditor, University of Jaffna then researchers did pilot study in the faculty of management studies and commerce, University of Jaffna. Finalized questionnaire used in this study with 5 point likert scale questions and open ended questions.

5.4 Hypotheses

The following hypotheses were developed and tested in this study based on the research questions and objectives of this study.

H₁: There is significant impact of internal audit practices on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{1a}: There is significant impact of administration system review on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{1b}: There is significant impact of control on assets usage on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{1c}: There is significant impact of control on payment, research grant & allowances on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{1d}: There is significant impact of control on purchase & procurement on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{1e}: There is significant impact of legal compliance on satisfaction of the administrators in University of Jaffna, Sri Lanka.

H₂: There is a significant relationship between internal audit practices and satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{2a}: There is significant relationship between administration system reviews and satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{2b}: There is significant relationship between controls on assets usage and satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{2c}: There is significant relationship between controls on payment, research grant & allowances and satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{2d}: There is significant relationship between controls on control on purchase & procurement and satisfaction of the administrators in University of Jaffna, Sri Lanka.

H_{2e}: There is significant relationship between legal compliance and satisfaction of the administrators in University of Jaffna, Sri Lanka.

5.5 Research Model

The following simple statistical models formulated and tested in this study. To identify the impact of internal audit practices on the Satisfaction of administrators, University of Jaffna, a regression model (1) estimated as below.

$$Y = \beta_0 + \beta_1ASR + \beta_2CAU + \beta_3CPRGA + \beta_4CPP + \beta_5LC + \epsilon_i \quad (1)$$

Where:

Y=Satisfaction of Administrators

β_0 =Constant

β_1 =Administration System Review Slope

β_2 =Control on Assets Usage Slope

β_3 = Control on Payment, Research Grant & Allowances Slope

β_4 =Purchase & Procurement Slope

β_5 =Legal Compliance Slope

ASR=Administration System Review

CAU=Control on Assets Usage

CPRGA=Control on Payment, Research Grant & Allowances

CPP=Purchase & Procurement

LC=Legal Compliance

And ε_i = Random Error

5.6 Data Analysis Strategies

Data analysis is used to achieve the objectives of the research and find the answer for the research questions. Researchers used descriptive, correlation and regression analysis in this study. SPSS is one of the best statistical software for the primary data analysis. This study fully involved with the primary data, SPSS used to analyse the data of the study. Descriptive analysis used to show the mean value of satisfaction of the administrators' regarding internal audit practices and quality of the internal auditors in University of Jaffna, Sri Lanka. The main purpose of the descriptive analysis is to find the level of satisfaction from highly dissatisfy (1) to highly satisfy (5) regarding internal audit practices and their quality in University of Jaffna, Sri Lanka. Correlation Analysis used to identify the relationship between level of internal audit practices and quality of the internal auditors based on administrators' satisfaction. Results of the correlation analysis used to test the hypothesis of the study.

Regression Analysis used to find out the impact of internal audit practices on quality of the internal auditors based on satisfaction of the administrators in University of Jaffna, Sri Lanka. Further results of the regression analysis used to test the hypothesis of the study. It is important to develop the statistical regression model according to the independent variables impact on the dependent variable of this study.

6. Analysis and Interpretation

6.1 Demographic Profiles of the Respondents

Table 2. Gender, Age and Work Experience of Respondents

Particulars		Frequency	Percentage
Gender	Male	31	67.4
	Female	15	32.6
Age	Below 30 years	2	4.3
	30 - 40 years	6	13.0
	40 - 50 years	26	56.5
	50 - 65 years	12	26.1
	1 - 10 years	17	37.0
Work Experience	10 - 20 years	14	30.4
	Above 20 years	15	32.6

According to the above table, most of the respondents of the study is male. It is just more than 2/3 of the total respondents of the study. From above table it can be seen that most of the respondent's age is between 40 to 50 years old. It shows more than 50% respondents of the study. Further 67 percentage of respondent's work experience is more than 10 years.

6.2 Descriptive Analysis

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ASR	46	1.50	3.92	2.7101	.63483
CAU	46	1.40	4.20	3.5087	.58683
COPRGA	46	1.75	4.63	3.2935	.59874
COPP	46	1.50	4.63	3.2364	.63203
LC	46	1.50	4.17	3.0036	.61009
IAQ	46	1.38	4.38	2.9864	.64616
Valid N (list wise)	46				

Mean value of the descriptive analysis clearly shows that level of internal audit practices based on the administrator's satisfaction. It can be seen that there is no any internal audit practice at satisfaction level. Most of the internal audit practices are in moderate level according to the administrator's satisfaction. Further it can be seen that internal audit practices related with the administrative system review are very low level and internal audit practices related with the control on assets usage are high level.

6.3 Regression Analysis

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839 ^a	.703	.666	.37329

a. Predictors: (Constant), LC, CAU, ASR, COPP, COPRGA

According to the model summary of the regression analysis, it can be noticed that internal audit practices related with administrative system review, legal compliance, control on assets usage, control on purchase & procurement and control on payment, research grant & allowance are impact 66.6% on the quality of the internal audit (Adjusted $R^2 = 0.666$). Here remaining 33.3% quality of the internal audit is impact by other factors which factors did not study in this study.

Table 5. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	13.215	5	2.643	18.967	.000 ^a
1 Residual	5.574	40	.139		
Total	18.788	45			

a. Predictors: (Constant), LC, CAU, ASR, COPP, COPRGA

b. Dependent Variable: IAQ

According to the above table it can be seen that there is significant impact of internal audit practices on quality of internal audit based on the internal auditor's satisfaction.

Table 6. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.044	.361		-.123	.903
ASR	.284	.121	.279	2.349	.024
CAU	.106	.136	.096	.775	.443
COPRGA	-.081	.165	-.075	-.488	.628
COPP	.334	.155	.327	2.151	.038
LC	.358	.154	.338	2.320	.026

a. Dependent Variable: IAQ

According the coefficients table of the study, there is significant impact of internal audit practices related with administrative system review on the satisfaction of the administrators, there is significant impact of internal audit practices related with control on purchase & procurement on the satisfaction of the administrators, significant impact of internal audit practices related with legal compliance on the satisfaction of the administrators. However there is no significant impact of internal audit practices related with control on assets usage on the satisfaction of the administrators and there is no significant impact of internal audit practices related with control on payment, research grant & allowances on the satisfaction of the administrators.

6.4 Correlation Analysis

Table 6. Correlations

		ASR	CAU	CPRGA	CPP	LC	IAQ
ASR	Pearson Correlation	1	.463**	.638**	.625**	.607**	.711**
	Sig. (2-tailed)		.002	.000	.000	.000	.000
	N	42	42	42	42	41	42
CAU	Pearson Correlation	.463**	1	.700**	.656**	.650**	.589**
	Sig. (2-tailed)	.002		.000	.000	.000	.000
	N	42	42	42	42	41	42
CPRGA	Pearson Correlation	.638**	.700**	1	.746**	.694**	.633**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	42	42	42	42	41	42
CPP	Pearson Correlation	.625**	.656**	.746**	1	.747**	.764**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	42	42	42	42	41	42
LC	Pearson Correlation	.607**	.650**	.694**	.747**	1	.742**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	41	41	41	41	41	41
IAQ	Pearson Correlation	.711**	.589**	.633**	.764**	.742**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	42	42	42	42	41	42

** . Correlation is significant at the 0.01 level (2-tailed).

According to the correlation analysis it can be seen that there is significant positive relationship with internal audit practices and satisfaction of the administrators. Further each internal audit practices have more than 50% relationship with satisfaction of the administrators in University of Jaffna, Sri Lanka.

6.5 Hypotheses Testing

Table 7. Hypotheses Testing

H.No	Hypothesis	P/ r Value	Results
H ₁	There is significant impact of internal audit practices on satisfaction of the administrators in University of Jaffna, Sri Lanka.	0.000	Accept
H _{1a}	There is significant impact of administration system review on satisfaction of the administrators in University of Jaffna, Sri Lanka.	.024	Accept
H _{1b}	There is significant impact of control on assets usage on satisfaction of the administrators in University of Jaffna, Sri Lanka.	.443	Reject
H _{1c}	There is significant impact of control on payment, research grant & allowances on satisfaction of the administrators in University of Jaffna, Sri Lanka.	.628	Reject
H _{1d}	There is significant impact of control on purchase & procurement on satisfaction of the administrators in University of Jaffna, Sri Lanka.	.038	Accept
H _{1e}	There is significant impact of legal compliance on satisfaction of the administrators in University of Jaffna, Sri Lanka.	.026	Accept
H ₂	There is a significant relationship between internal audit practices and satisfaction of the administrators in University of Jaffna, Sri Lanka.	0.000	Accept
H _{2a}	There is significant relationship between administration system reviews and satisfaction of the administrators in University of Jaffna, Sri Lanka.	.000	Accept
H _{2b}	There is significant relationship between controls on assets usage and satisfaction of the administrators in University of Jaffna, Sri Lanka.	.000	Accept
H _{2c}	There is significant relationship between controls on payment, research grant & allowances and satisfaction of the administrators in University of Jaffna, Sri Lanka.	.000	Accept
H _{2d}	There is significant relationship between controls on control on purchase & procurement and satisfaction of the administrators in University of Jaffna, Sri Lanka.	.000	Accept
H _{2e}	There is significant relationship between legal compliance and satisfaction of the administrators in University of Jaffna, Sri Lanka.	.000	Accept

7. Conclusion and Recommendations

University of Jaffna has to compete with other state universities in Sri Lanka and international universities to achieve top world and domestic rank. It has a historical experience in the field of higher education in Sri Lanka. There are a lot of ways to be considered to improve the performance of the university. Effective and efficient internal audit practices lead for the better organizational performance in the world. University of Jaffna needs to ensure the effective and efficient internal audit practices according to the current advancement in audit. Especially they can give priority for the performance audit which is accepted and practices in all over the world.

According to the findings of the study it can be seen that internal audit practices are in moderate level here internal audit practices related with administrative system review is below than moderate level based on the administrator's perception. Further all internal audit practices have significant relationship with satisfaction of the administrators. Also internal audit practices related with administrative system review, legal compliance and control on purchase and procurement are significantly impact on satisfaction of the administrators. From the findings of the study it can be concluded that internal audit practices should be improved and top management should take necessary steps to ensure the adequate internal audit practices especially for the administrative system review, legal compliance and control purchase and procurement in University of Jaffna, Sri Lanka. The following can be recommended by the researchers based on this study,

- University of Jaffna has campus and faculties in three districts and in several areas. Campus and faculties located a long distance from main premises here internal audit division is available in the main premises. They do not have adequate internal audit staffs to do their duty effective and effectively. Also they do not

have a separate vehicle facilities to carry out their internal audit practices and performance audit. Top management of the university should ensure the human and physical resources for the effective and efficient performance of the internal audit division.

- Top management of the university may think to create an internal auditor position for each faculty; it will lead to the effective and efficient internal audit practices.
- There should be done reform in the internal audit practices according to the recommended and reputed internal audit practices for the higher education in locally and internationally.
- Top management of the university should ensure the knowledge and ability of the internal audit staffs. If there are any deficiencies with the current requirement, they can provide internal and local training and learning facilities regarding internal audit practices in higher education system.
- Common internal audit system and audit plan may lead to the common and best practice in Sri Lanka. University Grant Commission may think to develop a common internal audit system and audit plan then it can be circulated to each internal audit division of the university. Then they can practice, if there is any addition in the audit plan and system such additions can be added according to the need of university. Also internal audit system and plan should be updated in regular interval.
- Internal audit practices related with administrative system review is below than moderate level. Also it covers administration procedures and academic procedures. Both are very important for a higher education institution. Top management of the university has the responsibility to ensure the effective and adequate internal audit practices related with administrative system review. It can impact vitally on the performance and quality of the university.

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