

The Role Of Integration Between Internal And External Audit Systems On Positive Outcomes And Procedures At Workplace In Saudi Arabia

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Abstract

The aim of this study is to examine the role of internal and external audits on positive outcomes and procedures in Saudi Arabia, and selecting King Khalid University (KKU) as a case study. Although, the essential role of integrated audit systems at workplace, there is a lack of studies been conducted in this area more specifically in KSA. For conducting this study, the quantitative approach is being applied to lead the methods of this study. Hence, there are 37 questionnaires have been collected from financial staff in KKU. Then, the data was analysis using SPSS 20.0. The results indicated that there is positive relationship between internal and external auditing and positive work outcomes and procedures as well. Besides, the interesting benefits that would be valuable for the policymakers at workplace. Finally, the limitations and streams for upcoming researches been discussed.

Keywords: *Internal audits, external audits, and integrating system.*

1.0 Introduction

In last decades, the world witness a volatile environment at workplace due to the lack of mentoring. Which is resulted in increasing the amount of fraud and illegal connections that reflected on lower public confidence in financial reporting and audit, and a mismatch between financial reporting users' expectations of what they should be or what references should be made (Shaalan Jabbar 2018). Scholars, stressed that the gap between auditors and users of the financial statements is exist at workplace because of the different adequacy and level of professional performance of the audit than expected (Shaalan Jabbar 2018; Simon et al. 2014). This due to the expectations of financial community about auditors to provide and clarify some issues in their reports such as; technical competence, impartiality, objectivity, independence and impartiality (Shaalan Jabbar 2018). However, also the financial community seeking from auditors to discover errors and prevent misleading statements that might be appeared from the financial community in organization (Shaalan Jabbar 2018). In order to reduce the stated gap,

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some scholars called for integration between internal and external auditing systems (Edaily et al. 2020; Gunn et al. 2022; Shaalan Jabbar 2018; Simon et al. 2014).

The integration of internal auditors with external auditors is a critical aspect of ensuring effective and efficient audit processes within organizations. While internal auditors and external auditors have distinct roles and responsibilities, their collaboration can enhance the overall audit function and contribute to better governance, risk management, and compliance. Empirical evidence showed that there are positive impact at workplace due to the integration between internal and external auditing systems (Simon et al. 2014). For example, that integration between internal and external auditing reducing the financial crises (Edaily et al. 2020), increasing the quality of auditing, auditing performance and sustainability, auditing effectiveness and resilience (Dinh, Pham, and Nguyen 2021; Gunn et al. 2022; Sakhil et al. 2023; Usman, Rohman, and Ratmono 2023). Although, the importance of the issue of integration of both internal and external auditing systems at workplace, there is a lack of studies in addressing this issue (Edaily et al. 2020; Shaalan Jabbar 2018; Simon et al. 2014; Usman et al. 2023).

Therefore, this study focuses on highlighting the integration of internal and external auditing systems at workplace for showing the policymakers that values and possible facilities that could be achieved from the integrating systems of internal and external auditing.

2.0 Literature review

2.1 The concept of integrating auditing systems

Auditing system is containing both internal auditor and external auditor concept. So the internal auditor is defined internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It also helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (Stewart and Subramaniam 2010). Also, the internal audit is defined based on the Institute of Internal Auditors as “a function performed by staff from within the project, which includes critical examination of procedures, policies and ongoing evaluation of plans, administrative policies and internal control procedures with a view to ensuring the implementation of these administrative policies and verifying that the internal controls are sound and their information is sound, accurate and adequate” (Shaalan Jabbar 2018). On the other hand, external auditing is defined according to IFAC (2001), as “the external auditing is one of the classifications of auditing that can be defined as critical and neutral examination of records and documents of the economic organization by an external auditor to express a neutral, honest and artistic opinion about the authenticity of the financial reports during a specific period” (Fadzil, Haron, and Bin Jantan 2005). However, when the internal and external audit is mixed together is called as “combined audit” (Simon et al. 2014). These two systems of management of different disciplines and features such as quality, environmental, occupational health and safety are audited together (Simon et al. 2014). According to Karapetrovic and Willborn (2000), integrated MS audits mean that specific audits lose their separate identities and would be conducted as a single audit, from planning and design, through execution, to reporting and completion (Karapetrovic and Willborn 2000; Simon et al. 2014).

2.2 The benefits of integration between internal and external audits at workplace

Previous researches revealed that plethora of benefits and facilities can be achieved due to the integration of both internal and external audits as follows;

2.2.1 Clear Communication Channels: Establishing clear communication channels between internal and external auditors is essential. This ensures that both parties understand their respective roles, objectives, and scope of work. Regular meetings and discussions help in aligning audit plans and strategies (Čular, Slapničar, and Vuko 2020).

2.2.2 Sharing of Information: Internal auditors can provide valuable insights to external auditors by sharing their findings, risk assessments, and internal control evaluations. This sharing of information helps external auditors in understanding the organization's risk environment and focusing their efforts on areas of higher risk (Kraus and Grosskopf 2008).

2.2.3 Coordinated Audit Planning: Internal and external auditors should coordinate their audit plans to avoid duplication of efforts and ensure comprehensive coverage of key risks and controls. By collaborating during the planning phase, auditors can identify synergies and streamline audit procedures (Simon et al. 2014).

2.2.4 Utilization of Internal Audit Work: External auditors can leverage the work performed by internal auditors, such as testing procedures, documentation, and risk assessments. This can reduce duplication of efforts and optimize the use of resources (Dinh et al. 2021).

2.2.5 Joint Audit Procedures: In some cases, internal and external auditors may conduct joint audit procedures to address specific areas of concern or to enhance audit effectiveness. Joint audits promote knowledge sharing, consistency in approach, and a deeper understanding of the audit subject matter (Gunn et al. 2022).

2.2.6 Cross-Training and Knowledge Transfer: Internal auditors and external auditors can benefit from cross-training initiatives and knowledge transfer sessions. This allows auditors to understand each other's perspectives, methodologies, and regulatory requirements, leading to improved collaboration and professional development (Usman et al. 2023).

2.2.7 Alignment with Professional Standards: Both internal and external auditors should adhere to relevant professional standards and guidelines issued by professional bodies such as the Institute of Internal Auditors (IIA) and the International Standards on Auditing (ISA). Alignment with these standards ensures consistency, quality, and credibility in audit practices (Simon et al. 2014).

2.2.8 Continuous Improvement: Integration efforts should be accompanied by a commitment to continuous improvement. Internal and external auditors should regularly evaluate their collaboration efforts, identify areas for enhancement, and implement process improvements to strengthen the audit function over time (Edaily et al. 2020; Simon et al. 2014).

2.3 Integration of internal and external audits

Usually, businesses are subject to the both kind of auditing that internal and external due to be congruent with standards. Scholars have proposed that organizations which depend on both internal and external audits may achieve the maximum benefit of the auditing process (Simon et al. 2014). Accordingly, the integration of internal and external audits can be much more efficient than separate audits, as the process under review, along with all its controls (environmental, health, safety, and quality) has to be evaluated only once. Moreover, there is less duplication of effort during the planning, execution, and even follow-up phases of the audit (Kraus and Grosskopf 2008). In the same vein, the integration of external audits is also more

accurate and effectiveness due to the preference of organizations for having an integrated internal and external audits to benefit from synergies that this implies (Bernardo et al. 2011). Therefore, based on the stated evidence, we proposed that;

H1: The complimentary relationship between internal and external auditing has a positive impact on positive work outcomes (i.e., cover all activities at organization, high quality of work, reducing of duplication, creating a healthy environment, reducing the auditing cost, examination and review determination, showing the comprehensive analytical procedures, and increase the independence of internal auditor).

H2: The integration of internal and external auditor has positive contributions on auditing procedures at work (i.e., monitoring to ensure the sustainability, achieving the sustainability achievement, using the modern systematic methodologies, collecting of sufficient evidence for judgment, many areas of integrated, reducing the high level of duplication, and saving the time).

3.0 Methodology

3.1 Participants

The data employed in this study were collected from staff working in the King Khalid University (KKU) located in Saudi Arabia between September and December 2023. We expected to collect data from 50 samples of auditors based on the sample size rule of thumb as proposed by Kerjcie and Morgan's (1970) table of minimum samples size as stated on Sekaran books (Krejcie and Morgan 1970; Sekaran 2003; Sekaran and Bougie 2016). Hence, we managed to collect 37 questionnaires following the strategy of drop and pick up later.

3.2 Measures

The measurements of questionnaire's items were administrated in Saudi Arabia. The technique of back to back translation (Brislin 1970) was applied to clarify the questionnaire's items, this because the language of respondents is Arabic, so the questions was translated into Arabic. While, the final draft of items after conducting more revisions and corrections. Then the questionnaires had been spread to the respondents. Whereas, the variables' measures were deeply detailed regarding internal and external auditing which have been adopted and adapted from the literature of auditing management.

4.0 Data analysis and results

The data was prepared for final analysis through cleaning and deleting the odd cases and discarding the uncompleted questionnaires. This because, the theory of testing depicted that, first, we should run the descriptive analysis for demographic data and then Cronbach's alpha for validating the items by utilizing SPSS 20.0 which was ranged between 0.80 to 0.90 over all constructs' items understudy. Meaning that, Internal consistency reliability (Cronbach's alpha) exceeded 0.70 for all items which it was reached the proper threshold above 0.70 which is been suggested by (Hair et al. 2017). Whereas, Cronbach's alpha for this study were .94 for all the 15 items, which it means that exceed the threshold as expressed in literature.

4.1 Demographic Data

Table 1: Showing the Description of Sample

Items		Frequency	Percent%
Gender	Male	16	43.2
	Female	21	56.8
	Total	37	100.0
Age	Less than 30	16	43.2
	30-40	11	29.7
	40-50	10	27.0
	More than 50	-	-
	Total	37	100.0
Education	Bachelor Degree	15	40.5
	PhD	1	2.7
	Professional Certificate	1	2.7
	Others	20	54.1
	Total	37	100.0
Current Occupation	Accountant	19	51.4
	Auditor	1	2.7
	Officer	6	16.2
	Manager	1	2.7
	Administrative	5	13.5
	Others	5	13.5
	Total	37	100.0
Working Experience	Less than 5 years	17	45.9
	6 - 10	4	10.8
	More than 11 years	16	43.2
	Total	37	100.0

The result of demographic data of this study includes males (n=16) 43.2% and females (n=21) 56.8% working in KKU in Saudi Arabia, and their ages between less than 30 (n=16) 43.2%, between 30 to 40 (n=11) 29.7%, and between 40 to 50 (n=10) 27.0%. Furthermore, in terms of education, most of the participants holding Bachelor degree (n=15) 40.5% and others' certificates (n=20) 54.1%. In addition, their occupation is mostly ranked in accountant who are more than 50.0%. Finally, in term of experience, the respondents who are have experience less than 5 years are 45.9% and who are between 6-10 years are 10.8%, while who have experience above 11 years are 43.2% (see table no.1 for more details).

Table 2: Showing the results of Hypothesis one

Indicators	Mean	Std. Deviation	Chi-Square	df	Sig.	Supported
Cover all activities at organization	4.14	.751	36.622a	3	0.000	Yes
High quality of work	4.35	.949	40.432b	4	0.000	Yes
Reducing of duplication	4.03	.897	31.784b	4	0.000	Yes
Creating a healthy environment	4.41	.798	25.595a	3	0.000	Yes
Reducing the auditing cost	3.84	.898	26.649b	4	0.000	Yes

Examination and review determination	4.16	.800	27.324a	3	0.000	Yes
Comprehensive analytical procedures	3.95	.815	16.514a	3	0.001	Yes
Increasing independence of internal auditor	4.00	.913	28.270b	4	0.000	Yes

Note: Sig = significance and should be less than 0.05

Table 2 is showing indicators results of hypothesis one is about “The complimentary relationship between internal and external auditing has a positive impact on positive work outcomes” (i.e., cover all activities at organization, high quality of work, reducing of duplication, creating a healthy environment, reducing the auditing cost, examination and review determination, showing the comprehensive analytical procedures, and increase the independence of internal auditor). The statistical results revealed that the means of indicators were between 3 – 4, standard deviations were less than 1, Chi-Square values were significant and all the results were less than <0.05. This means that there is a strong relationship between the integration of internal and external auditing systems and positive work outcomes at workplace.

Table 3: Showing the results of Hypothesis two

Indicators	Mean	Std. Deviation	Chi-Square	df	Sig.	Supported
Monitoring to ensure the sustainability	4.30	.661	8.811a	2	0.012	Yes
Achieving the sustainability development	4.27	.693	6.703a	2	0.035	Yes
Using the modern systematic methodologies	4.08	.759	19.108b	3	0.000	Yes
Collecting of sufficient evidence for judgment	4.30	.661	32.081b	3	0.000	Yes
Many areas of integrated	4.08	.795	15.216b	3	0.002	Yes
Reducing the high level of duplication	4.22	.672	8.000a	2	0.018	Yes
Saving the time	4.30	.702	26.892b	3	0.000	Yes

Note: Sig = significance and should be less than 0.05

Table 3 is showing indicators results of hypothesis two which is about “the integration of internal and external auditor has positive contributions on auditing procedures at work” (i.e., monitoring to ensure the sustainability, achieving the sustainability achievement, using the modern systematic methodologies, collecting of sufficient evidence for judgment, many areas of integrated, reducing the high level of duplication, and saving the time). The statistical analysis showed that the means of indicators were at the degree of 4, standard deviations were less than 1, Chi-Square values were significant and all the results were less than <0.05. In other words, the results stressed that the integration of both internal and external systems has a positive effect on making effective procedures at workplace in terms of cost and time...etc.

5.0 Discussion

The objective of this study is to investigate the integrating internal and external auditing on positive outcomes and procedures at workplace in Saudi Arabia. Although the importance of integration between both system and their significant impact on auditing system and performance, there is a lack of studies have touched this area recently. Therefore, we hypothesized two hypotheses regarding the role of integration between internal and external audits on positive outcomes and procedures at workplace. The results showed that; first, H1: there are positive relationship between internal and external auditing and positive work outcomes (i.e., cover all activities at organization, high quality of work, reducing of duplication, creating a healthy environment, reducing the auditing cost, examination and review determination, showing the comprehensive analytical procedures, and increase the independence of internal auditor). Second, H2: the integration of internal and external auditor has positive contributions on auditing procedures at work (i.e., monitoring to ensure the sustainability, achieving the sustainability achievement, using the modern systematic methodologies, collecting of sufficient evidence for judgment, many areas of integrated, reducing the high level of duplication, and saving the time). These two results have supported by many scholars such as (Bernardo et al. 2011; Fadzil et al. 2005; Kraus and Grosskopf 2008; Shaalan Jabbar 2018; Simon et al. 2014). Hence, all the stated studies have concluded that the importance of integration between internal and external audits system in organization and this system will reduce risks and increase the positive outcomes.

6.0 Conclusion

This study focused to highlight the effect of internal and external audits on positive outcomes and procedures in Saudi Arabia: KKU as a case study. Then, we have collected 37 subjects for the whole population. The results showed that the integration of internal auditors with external auditors is essential for promoting transparency, efficiency, and effectiveness in the audit process. By working together collaboratively, auditors can better identify and address risks, provide valuable insights to stakeholders, and contribute to the overall governance and accountability of the organization. So, these results brought new trajectories for policymakers by providing the empirical evidence regarding using the integration system of auditing. Ultimately, the study is expanded the role of internal and external integration by applying this study in university. In other words, the study showed the benefits of using the integrating audits system in educational institutions which is rarely been touched.

6.0 Limitations

Every study has some limitations or boundaries. Our study is focused on dealing with integration of internal and external auditing systems in one educational institution (i.e., KKU), however, the study can be replicated by increasing the number of universities and that will increase the sample size of the study which make the role of generalization more accessible. Another limitation is intervening variables, this study is focused on direct relationships between variables, however, future studies may be focusing on introducing the role of mediating and moderating effects on that relationship. Finally, this study is used the quantitative methods, but the future studies should attempt other methods such as qualitative approaches or mix methods in order to bring new insights for the policymakers.

7.0 Acknowledgment

“The authors extend their appreciation to the Deanship of Scientific Research at King of Khalid University for funding this work through Small Groups Project under grand number (31/1444).

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