



City Research Online

City St George's, University of London

Citation: Haimon, Z. (1998). Evaluating the effectiveness of internal auditing in municipalities in Israel. (Unpublished Doctoral thesis, City University London)

This is the accepted version of the paper.

This version of the publication may differ from the final published version. To cite this item please consult the publisher's version.

Permanent repository link: <https://city-ref-test.eprints-hosting.org/id/eprint/7570/>

Copyright and Reuse: Copyright and Moral Rights remain with the author(s) and/or copyright holders. Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge, unless otherwise indicated, provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way. For full details of reuse please refer to [City Research Online policy](#).

EVALUATING THE EFFECTIVENESS OF
INTERNAL AUDITING IN MUNICIPALITIES IN ISRAEL

Zvi HAIMON BSc, MBA.

Thesis submitted for
Doctor of Philosophy in Internal Auditing

CITY UNIVERSITY BUSINESS SCHOOL, London

June 1998

TABLE OF CONTENTS

List of Tables	7
List of Figures	10
Acknowledgements	12
Declaration	13
Abstract	14
PART ONE PURPOSE AND THEORETICAL BACKGROUND OF THE STUDY	15
Chapter one Purpose of the study	15
1.0. Introduction	15
1.1. Objectives of the research	24
1.2. The need for the research	24
1.3. Methodology	27
1.4. Limitations of the research	31
1.5. Outline of the study	34
Chapter two Municipalities and internal auditing in Israel	36
2.0. Introduction	36
2.1. Perspective on the environment of municipality internal auditing	37
2.1.1. The Municipal Ordinance.....	37
2.1.2. Development of the local authorities in Israel.....	38
2.1.3. Services provided by municipalities in Israel.....	40
2.1.4. Local government – central government relationship.....	41
2.1.5. Direct election of mayors.....	44
2.1.6. The mayor – council relationship.....	47
2.1.7. Committees in the local authority in Israel	49
2.1.8. Statutory positions in municipalities.....	54
2.1.9. Internal auditing in municipalities.....	55
2.1.10. Other auditors.....	60
2.1.11. The municipality internal auditor's reports and the media.....	64
2.2. Power of the municipality internal auditing unit theoretical analysis	67
2.2.1. Introduction.....	67
2.2.2. Perception.....	69

2.2.3.	Power in organisations and internal auditing in municipalities	71
2.3.	The audit expectation gap in the literature	80
2.3.1.	The audit expectations gap in relation to municipality internal auditing in Israel	88
2.3.2.	Perceptions of internal audit in the public service in England	90
2.4.	Internal auditing – characteristics	94
2.4.1.	Introduction	94
2.4.2.	Standards for the professional practice of internal auditing ("the Standards"): The Institute of Internal Auditors	96
2.4.3.	A theoretical evaluation and adaptation of the different standards for this study	98
2.5.	Hypotheses	109
2.5.1.	Hypotheses concerning the independence of the municipality internal auditing unit	109
2.5.2.	Hypothesis concerning the competence of the municipality internal auditing unit	110
2.5.3.	Hypotheses concerning the scope of work of the municipality internal auditing unit	111
2.5.4.	Hypotheses concerning the performance of the municipality internal auditing unit	111
2.5.5.	Hypotheses concerning the management of the municipality internal auditing unit	112
PART TWO SURVEY DESIGN AND METHODOLOGY		114
Chapter three The research methodology		114
3.0.	Introduction	114
3.1.	The target population of the study	116
3.2.	The approach	117
3.3.	Range of data collection tools	118
3.4.	Choosing a method for the present research	122
3.5.	Collecting the data	126
3.6.	The testing of the hypotheses	127

Chapter four	Criteria for evaluating the effectiveness of internal auditing in municipalities in Israel	131
4.0.	Introduction	131
4.1.	First phase meetings	132
4.1.1.	Introduction.....	132
4.1.2.	The approach used for these meetings.....	134
4.1.3.	Meetings and opinions.....	137
4.1.4.	Analysing the results of the meetings from the first phase.....	153
4.2.	Second phase meetings.....	155
4.2.1.	Introduction.....	155
4.2.2.	The approach used for these meetings.....	158
4.2.3.	Meetings and opinions.....	158
4.2.4.	Conclusions from the first and second phase of meetings with the different representatives of users.....	180
Chapter five	Questionnaire development	184
5.0.	Introduction.....	184
5.1.	Pilot testing	186
5.2.	Statements used in the questionnaire	190
5.3.	Purpose of each statement and linkage to relevant hypotheses	190
5.3.1.	Part 1: Independence.....	192
5.3.2.	Part 2: Competence.....	194
5.3.3.	Part 3: Scope of work.....	196
5.3.4.	Part 4: Performance.....	199
5.3.5.	Part 5: Management.....	201
5.4.	Conclusion.....	203
Chapter six	Respondents	204
6.0.	Introduction.....	204
6.1.	The questionnaire package.....	206
6.2.	The different groups planned to take part in the survey	208
6.3.	Population base.....	211
6.4.	Response rate.....	214
6.5.	Conclusion.....	222
PART THREE	EMPIRICAL SURVEY ANALYSIS	224
Chapter seven	Descriptive analysis	224
7.0.	Introduction.....	224
7.1.	Section I of the questionnaire.....	225
7.2.	Section II of the questionnaire.....	235
7.2.1.	Independence of Internal auditing in the municipality.....	235

7.2.2. Competence of internal auditing in the municipality	238
7.2.3. Scope of work of internal auditing in the municipality	240
7.2.4. Performance of internal auditing in the municipality	243
7.2.5. Management of internal auditing in the municipality	245
7.3. Conclusion	247
Chapter eight Factor analysis for questionnaire used in the empirical research	249
8.0. Introduction	249
8.1. Factor loadings of statements on the four factors	250
8.2. Conclusion	256
Chapter nine Data analysis	260
9.0. Introduction	260
9.1. Testing the hypotheses	262
9.1.1. Differences between the different respondent groups for the five components of the model	263
9.1.2. The evaluations by respondents from the municipality internal auditing unit as opposed to the other respondents.....	265
9.1.3. The evaluations of the journalists as opposed to the other respondents.....	267
9.1.4. Evaluation by respondents from municipality internal auditing units and by journalists of the implementation component.....	269
9.1.5. Differences in evaluation among the different auditee respondent groups	270
9.1.6. Interpretation of differences	272
9.1.7. Testing the hypotheses - summary.....	279
9.2. Relations between the components used to evaluate the effectiveness.....	281
9.3. Relationship between the evaluation of effectiveness and the population size of the municipality.....	284
9.4. Relationship between the evaluation of effectiveness and data provided by the municipality internal auditors	288
9.5. Differences between councillors from the opposition and the coalition.....	290

9.6. Presenting the main results of the empirical research to mayors and conclusion	293
PART FOUR CONCLUSION AND RECOMMENDATIONS	298
Chapter ten Research conclusions and recommendations	298
10.0. Introduction: research summary	298
10.0.1. Developing a model	299
10.0.2. Validating the components and criteria of the model	300
10.0.3. Evaluating the effectiveness of internal auditing	302
10.0.4. Differences in perceived effectiveness between different groups of evaluators	303
10.1. Conclusion	310
10.2. Recommendations	313
10.3. Suggestions for further research	320
Appendix A: Statement of responsibilities of internal auditing (1991)	322
Appendix B: Definitions and abbreviations, clarification	327
Appendix C: Summary of general and specific standards for the professional practice of internal auditing	329
Appendix D: Suggested components and criteria for the evaluation of the effectiveness of the internal auditing unit in municipalities	334
Appendix E: Data on municipalities in Israel	337
Appendix F: The cover letter in English	339
Appendix G: The cover letter in Hebrew	340
Appendix H: The questionnaire in English	341
Appendix I: The questionnaire in Hebrew	348
Appendix J: Letter and list of job titles sent to municipality internal auditors	355
Appendix K: List of municipalities that were part of the research	357
References and bibliography	358
Books and monographs	358
Articles	362
Unpublished	364
Other	365

List of Tables

Table 4.1:	Summing up first phase meetings	136
Table 4.2:	Summing up second phase meetings	159
Table 4.3:	Summing up first and second phases meetings	181
Table 6.1:	Distribution of respondent groups - I	214
Table 6.2:	Distribution of respondent groups - II	215
Table 6.3:	Distribution of municipalities according to their population size - I	220
Table 6.4:	Distribution of municipalities according to their population size - II	221
Table 6.5:	Distribution of respondents compared to municipality categories.....	222
Table 7.1:	Number of municipalities according to internal auditing staff per range of municipality population.....	226
Table 7.2:	Number of municipalities according to staff increase in internal auditing units in the last three years per range of municipality population.....	227
Table 7.3:	Participation of municipality internal auditing staff in professional organisations and in continuing education programs per range of municipality population	228
Table 7.4:	Distribution of municipalities per percentage of the internal auditing budget as part of the total budget of the municipality per range of municipality population.....	229
Table 7.5:	Number of municipalities having a budget for the municipality internally auditing unit to hire external experts per range of municipality population	230
Table 7.6:	Distribution of municipalities per number of times external experts were hired in the last two years per range of municipality population.....	231

Table 7.7:	Distribution of municipalities according to municipality internal auditor's decision over annual audit work plan per range of municipality population.....	232
Table 7.8:	Signs of career municipality internal auditors	234
Table 7.9:	Distribution of the evaluations given by the different statements regarding the independence of internal auditing in the municipality	236
Table 7.10:	Distribution of the evaluations given by the different statements regarding the competence of internal auditing in the municipality	239
Table 7.11:	Distribution of the evaluations given by the different statements regarding the scope of work of internal auditing in the municipality	240
Table 7.12:	Distribution of the evaluations given by the different statements regarding the performance of internal auditing in the municipality	243
Table 7.13:	Distribution of the evaluations given by the different statements regarding the management of internal auditing in the municipality	246
Table 8.1:	Factor loadings of the 28 statements on the factor of independence after the varymax rotation.....	251
Table 8.2:	Factor loadings of the 28 statements on the factor of competence and performance after the varymax rotation.....	252
Table 8.3:	Factor loadings of the 28 statements on the factor of scope of work after the varymax rotation.....	254
Table 8.4:	Factor loadings of the 28 statements on the factor of implementation of corrective action following the internal auditing findings, after the varymax rotation.....	255
Table 8.5:	Internal consistency of the components	258

Table 9.1:	Distribution of the five respondent groups.....	262
Table 9.2:	Means and standard deviations of the five components evaluating the effectiveness in the five groups.....	264
Table 9.3:	Contrast analysis to compare between respondent groups according to hypotheses.....	267
Table 9.4:	Project hypotheses tested - Summary	280
Table 9.5:	Pearson correlation between components used to evaluate the effectiveness of internal auditing in municipalities.....	281
Table 9.6:	Means and standard deviations of the five components used to evaluate effectiveness in the three groups of different population size.....	285
Table 9.7:	Means and standard deviations of the five components used to evaluate the effectiveness by councillors from the coalition and the opposition.....	292

List of Figures

Figure 2.1	Example Of A Typical Israeli Municipality Internal Organisational Structure	53
Figure 2.2	The Meaning Of The "4 Es".....	95
Figure 3.1:	Components Of The Effectiveness Of Municipality Internal Auditing - Model I	115
Figure 8.1:	Components Of The Effectiveness Of Municipality Internal Auditing - Model II	259
Figure 9.1:	Distribution Of The Five Respondent Groups.....	262
Figure 9.2:	Means Of The Five Components To Evaluate Effectiveness In The Five Groups.....	265
Figure 9.3:	Distribution Of Municipalities According To Population Size	284
Figure 9.4:	Means Of The Five Components Used To Evaluate Effectiveness In The Three Groups Of Different Population Size.....	286
Figure 9.5:	Means Of The Five Components Used To Evaluate The Effectiveness By The Councillors From The Coalition And The Opposition.....	293

To my wife Julie, my parents and my children, Vered, Ari and Galia - without whose great assistance and understanding this thesis would not have been possible.

This thesis is dedicated to the memory of my father and my brother-in-law, Michael.

Acknowledgements

Special thanks are due to Professor Georges Selim, my internal supervisor, for his guidance and advice throughout this research.

My thanks also to my external supervisor, Dr. Shimon Rozevitch, from the departments of Finance and Political Sciences at Bar Ilan University, always present for exchanging ideas and so instrumental in opening doors for the empirical research in Israel.

I am grateful to Dov Hareven, co-ordinator between the department of Psychology and the Computer Centre at Bar Ilan University, for his great help with the statistics used in the research.

Last but not least my thanks to my brother-in-law Dr. Michael Weitzman and to my sister Dr. Anita Weitzman, both of University College London, for their suggestions in improving the style and syntax of the thesis.

Declaration

The University Librarian is hereby granted the power of discretion to allow this thesis to be copied in whole or in part without further reference to the author.

This permission only covers single copies made for study purposes, subject to the normal conditions of acknowledgement.

Abstract

The aim of this research is to evaluate the effectiveness of internal auditing in municipalities in Israel, as perceived by different groups of users.

A model to evaluate effectiveness was developed, followed by the preparation of a self-administered questionnaire of the Likert type. After pilot testing, the questionnaire was despatched. The empirical study was conducted on the majority of Israeli municipalities that possess an internal auditing unit. The respondent groups also included journalists at local newspapers who cover the annual municipality internal auditing reports.

The returned questionnaires provided the data used in the research analysis. After factor analysis, the model emerged based on the following components: Independence, Competence, Scope of work, Performance of the internal auditing unit, and the Implementation of corrective action following the internal auditing findings.

The respondents were divided into five groups:
(1) Staff of the municipality internal auditing unit
(2) Councillors - elected by the public (3) Top management (4) Middle level management (5) Journalists.

Meetings were also held with the mayors of various municipalities to ascertain their opinions on the results of the data analysis.

The research findings revealed major differences in the evaluation of effectiveness between different groups of users. In general, the research shows that the closer the user stands to the internal auditing operation, the higher the evaluation. The implementation of corrective action following the internal auditing findings was rated by all the respondent groups as lower than the other components.

Another result is that the internal auditing unit tends to be perceived as less effective in smaller municipalities; for this comparison, municipalities were divided into three categories according to population size.

The research has yielded various recommendations for operational change in order to improve the effectiveness of internal auditing in municipalities.

The model developed in this study can also serve to evaluate the different aspects of effectiveness of individual internal auditing units in individual municipalities in Israel.

PART ONE PURPOSE AND THEORETICAL
BACKGROUND OF THE STUDY

Chapter one

Purpose of the study

1. Purpose of the study

1.0. Introduction

Some fifty years ago, internal auditing was seen as covering primarily accounting and financial matters. Today internal auditing is concerned with all the different facets of internal control of the organisation. This process has transformed internal auditing from being a minor player to the important position it holds today in organisations. The Institute of Internal Auditors Inc. (I.I.A.), founded in the USA some fifty years ago, was very instrumental in bringing about those changes. Since its founding, national institutes within the I.I.A. have been created in many different countries, Israel included.

The Israeli national institute for internal auditing was established in 1960, with 61 members. Today there are about 1,200 members, drawn from the public, business and

private sectors. The national institute organises seminars, meetings and lectures for its members and also prepares exams in Hebrew for the certificate of Certified Internal Auditor (CIA) on behalf of the I.I.A. The national institute represents all those active in internal auditing in Israel, whether in governmental, public or any other bodies in Israel or abroad.

In 1959, the central government in Israel decided that each ministry should have its own internal auditing unit, and in 1964 common rules for all these units were published (Friedberg 1995a:550-569).

Under these rules, the remit of the auditors for each ministry was expected to include not only the specific operations of that ministry but also such topics as maintenance, manpower, and the implementation of corrective action in response to the State Comptroller's findings. Their audit had to be based on auditing concepts such as economy, efficiency and effectiveness. The internal auditors were expected to establish the cause of any deficiencies found in their audit, and to suggest ways to correct them and to prevent them in the future. Reports of the auditors' findings were also to be submitted to the heads of the ministerial units concerned and to the general director of the ministry. Most internal auditing related to budget and finance, in the different ministries, was to be performed by a special internal auditing team from the Ministry of

Finance, since those responsible for the budget in the different ministries are employees of the Ministry of Finance.

In 1986, the State Comptroller's report described the internal auditing units in the central government as weak and not very effective. This prompted the State Audit Committee of the Knesset - the Israeli parliament - to conduct meetings with the Israeli national institute for internal auditing, the State Comptroller and representatives of other related bodies, with a view to new legislation to strengthen the internal auditors' position (Friedberg 1995a:553, Mizrahi 1993:10).

New legislation on internal auditing was finally approved by the Knesset in 1992. The law covers all ministries in the central government, governmental institutions and other institutions in whose management the government is involved. The law also applies to companies whose shares are traded on the stock market, banks, insurance companies and institutions of higher education. In all those organisations, an approved internal auditor must head the internal auditing operations.

The law requires the internal auditor to be an individual, not a company. However, it does not dictate whether the internal auditing service should be provided by an internal unit or externally; that decision is left to the organisation concerned.

In the central government ministries, the law requires the internal auditor to report to the minister, directly or via the general director, as the government may decide. In other public organisations, including quoted companies, the internal auditor will report to the chairperson of the board of directors or to the general manager, as the board may decide. In banks, the internal auditor will be appointed by the board, following the recommendations of its audit committee. The internal auditor will report to the chairperson of the board, the general director and the chairperson of the audit committee. In insurance companies and in governmental companies, the internal auditors will be appointed by the board, and will report to the chairperson of the board and to the general manager.

The law did not alter anything regarding internal auditing in municipalities, which was already covered by the Municipality Ordinance. The Ordinance, which established the legal framework of internal auditing in municipalities, will be described in Chapter 2.

Mizrahi (1993:19) considered that the 1992 law adopted the principle of dual contact with the internal auditor; This principle enables the internal auditor to be in direct and continuous contact with the management for directives are needed in order to prepare the annual plan. On the other hand, the fact that the internal auditor also reports to the level beyond the executive,

be it the minister (in a governmental office) or the chair of the board or the audit committee, strengthens the internal auditor's independence and facilitates, if necessary, the audit of the operations of the executive itself.

A few years ago (in Friedberg 1995b:404-410), four general managers of large companies in the public sector in Israel were asked to draw a profile of their ideal internal auditors. All of them agreed that the directors of the internal auditing unit should: hold a senior position; report directly to the general manager of the organisation and enjoy the general manager's full support; possess integrity, maturity and the ability to analyse problems and set them in the right context; handle all matters, including suspected fraud, with great care, and assess objectively every part of the operation to be audited. The general managers differed as to whether the internal auditor should be appointed from among the senior officers in the organisation or be hired from outside. In favour of the former, some thought it important that the internal auditor should be already familiar with the goals and operations of the organisation from the inside. Others recommended hiring someone external to the organisation with fresh views that could invigorate the organisation's internal control.

According to Arieli (in Friedberg 1995b:419), the ideal auditor is someone who has risen to a secure and powerful position in the organisation: "Without power and status, the internal auditor will not survive long; who likes to be told the problems they are responsible for and had to be corrected?!".

Professor Zamir, the former legal advisor to the government of Israel, has stressed the growing importance (in Friedberg 1995b:411-418) of internal auditing in governmental bodies and also in public companies in the business sector. The internal auditing unit is charged with combating any deficiency in the administration. In the civil service, the internal auditor must be particularly vigilant in detecting political nominations, which are by definition bad: people are selected on the basis of political affiliation, rather than any objective criterion such as professional skills. The internal auditors are in a delicate position when dealing with a situation for which the minister, or the top management, is directly responsible; they cannot lightly criticise those upon whom their own position depends. Still, in Professor Zamir's view, the internal auditors must confront the problem as best they can, and do their utmost to have it corrected.

It is important to mention that, as in most countries, one of the biggest sectors in what is referred to as the

public administration, is the local government. As the awareness and importance of the 'quality of life' grows, the role and importance of local government is on the rise, and its activities become more complex. In the modern social welfare state, each citizen has different contacts, on a daily basis, with the many services provided by official offices. In Israel, a major part of those contacts is connected to the local government, which is responsible for such daily necessities as water supply, sanitation, construction, roads, parks, education and more.

The local authorities are a wide field of action for political and financial forces having an impact both for the present and the future way of life of large populations. An effective audit function is very important and instrumental for a good control of the operations of the local authority.

There might be disagreements as to what should be the right organisational structure of internal auditing within the organisation, but no one today questions its importance.

In the USA government (central or local), the audit function is central to the process of governing (Wheat, 1991) and this seems to be the trend elsewhere too.

In Israel, as in England, the central government has been demanding that local authorities reduce their

expenditure and have their budget balanced. On the other hand, local authorities are concerned to provide more services to their electors or at least maintain the same level of services. While costs are on the rise, income is not keeping up. Central government is not willing to fund local government as it used to, and legislation limits local tax. The result of those economic and political realities is that local authorities have to do more with less. Therefore, the local government has to use its resources with greater economy, efficiency and effectiveness. The internal auditing unit plays an essential role here.

Internal auditing in municipalities in Israel prompts the following questions:

- Is it really doing what it is supposed to do?
- What is its effectiveness?
- How do we evaluate it?
- Who will evaluate it?

This study will present a model for the effectiveness of internal auditing in municipalities in Israel. This model will make possible the evaluation of that effectiveness. The importance of the research lies in the fact that it indicates empirically how the different parties concerned perceive that effectiveness. Analysis of the results could identify the weak areas of internal auditing in the Israeli municipalities. The more

effective the municipality internal auditing unit, the greater its contribution to the municipality. Therefore correcting weak areas should improve the effectiveness of the municipality internal auditing unit and the internal control as a whole.

In Israel, among the different types of local authorities, internal auditing is required by law only in municipalities. Hence, the study focuses on municipalities. This is not to say that there is no need for internal auditing in the other forms of local authorities. On the contrary, the author hopes that the experience of internal auditing in municipalities, together with the results of this study in respect to its effectiveness, will eventually lead to the introduction of internal auditing in the other types of local authority organisation.

As a matter of fact, Mr. H. Ramon, the Minister of the Interior, announced in February 1996 his intention to require all local and regional councils to appoint internal auditors, like the municipality internal auditors. This was approved by the State Audit Committee of the Knesset (Israeli Parliament) in May 1996.

It should be noted that the large majority of the population and of industry is under the jurisdiction of municipalities.

For the sake of consistency, the present study will adopt:

- a) The definitions of what is internal auditing and what it stands for on the basis of the terminology of the I.I.A. (see Appendix A).
- b) The definitions of local government and other related terms as they appear in the Webster International Dictionary (see Appendix B).

1.1. Objectives of the research

- (1) To present a model for evaluating the effectiveness of internal auditing in municipalities in Israel.
- (2) To test the model.
- (3) To evaluate the effectiveness of internal auditing in municipalities in Israel, on the basis of the model.
- (4) To find out whether there are differences of perceived effectiveness between different groups.
- (5) To recommend ways to improve the effectiveness of internal auditing in municipalities in Israel.

1.2. The need for the research

Many articles have appeared in periodicals on internal auditing in local government. These include: Montondon & Meixner (1992), Sharp & Bull (1992), Friedberg (1994),

just to mention a few. However, no study has been found that evaluates the effectiveness of internal auditing specifically in municipalities.

The municipality environment is distinctive. Politicians, local residents who are the electors of tomorrow and the main clients of today, civil servants and others are all mingling together. This creates a delicate situation where the internal auditing unit has an important role to play. The check and balance system in the Israeli municipality relies heavily on the municipality internal auditor.

Beginning with the amendment of the Municipal Ordinance in 1979, the municipality internal auditors were supposed to enlarge their scope of work to include scrutiny of the operations performed by the councillors and the mayors. Whether or not they have the power to do so is another matter. The fact is that mayors have been charged with offences which were not detected by municipality internal auditors.

The newspaper Ma'ariv (15/7/94: 7-12) reported in 1994 that "in the last eight years, six heads of local authorities have been taken to court: four were convicted, two were discharged. Others are still under investigation." The main reasons were allegations of involvement in preferring certain contractors in return for personal or political favours.

Some of the mayors were subsequently exonerated. Often, it appears that political motives are behind the accusations. At all events, the process in the court of justice takes a long time. Even if at the end the mayors are declared not guilty, their political careers have often already come to an end. Therefore, the Minister of Justice and others are discussing the possibility of forming a new central police unit which will specialise in the investigation of mayors (Globes 22/3/96:4-10). This unit would operate with great care and discretion but would, where appropriate, recommend to sue the mayor in court.

Huge amounts of public money are being dealt with in all municipalities. The municipality owes it to its citizens to safeguard or to make proper use of the money and other resources or assets that are in its jurisdiction. Hence, the need for internal auditing to be effective.

This study aims to evaluate empirically the effectiveness of internal auditing within municipalities in Israel. Results of the study may lead to recommendations to strengthen any weak areas revealed in the empirical survey. Improving the effectiveness of internal auditing in any organisation creates better internal control. Improving the effectiveness of internal auditing in municipalities in Israel should improve the operation of the municipalities.

1.3. Methodology

The model of effectiveness of internal auditing in municipalities in Israel, as presented in this study, is based on the Standards issued by the I.I.A. – see Appendix C.

I.I.A. (Israel), the National Institute within I.I.A., is officially recognised by all the relevant institutions in Israel. Internal auditors in municipalities do not have to be members of the I.I.A. Still, as a member of the I.I.A. (Israel) Admission Committee, the author can attest that most municipality internal auditors and their staff do join.

The model is based on five attributes:

(1) independence

(2) competence (professional proficiency in the Standards – the change of term is explained in section 2.3.2 (2))

(3) scope of work

(4) performance of audit work

(5) management of internal auditing department

The components and criteria of the model were assessed and developed through meetings with representatives of the different types of user of the municipality internal auditing product in Israel. This was performed through two stages. The first comprised meetings with a sample

of major users. The second, included a larger number of respondents. The respondents were asked to give their opinion whether or not the different components and criteria suggested should be part of the model; at this stage they were not asked actually to evaluate the different criteria.

The empirical research was conducted through the use of a survey questionnaire. The target population represented the different groups of users of the municipality internal auditing product. Before sending the final questionnaire, the questionnaire was pilot tested for validity and reliability, with a representative sample of the targeted population.

In the survey itself, the respondents were asked, in the questionnaire, to evaluate the effectiveness of internal auditing in municipalities in Israel. They evaluated the different criteria which, according to the model presented in this study, are associated with that effectiveness.

Statistical analysis was used to analyse the data collected from the empirical survey.

The relatively high significance level of 5% has been chosen in this study, though many of the results turned out to be significant at 1% or even 0.1%.

The users of the internal auditing in municipalities are discussed further on in this study. They may be listed as follows:

Within the municipality:

- The mayor
- the council (including the audit committee)
- the different departments (including the internal auditing unit).
- the general director

Outside the municipality:

- The State Comptroller's Office (the department auditing the Local Authorities)
- The Ministry of the Interior:

The external accountants assigned by the ministry to the municipalities and the ministry's own small auditing team.

- the public (represented by journalists covering municipality affairs).

Regarding the departments within the municipalities, the study chose departments representing a cross-section of different types of departments existing in the municipality:

- Technical - such as the engineering department
- Line - such as the education department
- Service - such as the Finance department

Three levels of management took part in the research process. These included, the head of the department, who is an elected member of the council, the chief officer of the department and a middle level officer.

The public, which forms an important group of users, was represented in this study by journalists. The yearly report of the municipality internal auditing unit is made available to the public through the newspapers. The public does not read the whole report, but will read what the newspaper (mainly regional) publishes. The author has contacted journalists covering the subject and requested their participation in the research as representatives of the public. Fan (1988) stresses that media messages have great influence on the populace, especially in open societies where trust in the press is more likely. Israel is such an open society with a free press.

Zeller (1992) points out that a single news story does not have a great effect, but the cumulative effect of many stories over a period of months or years may be large. At least once every year when the municipality internal auditing report is published, the local newspapers discuss it and print out the main items. This, one can infer, has a cumulative effect on the local population. Therefore, it is fair to say that the journalists are not only representatives in proxy for the public, but active players in creating public

opinion regarding the municipality internal auditing product.

In addition to the questionnaires sent to the parties, the municipality internal auditors were asked to provide demographic information regarding their municipality's internal auditing department.

1.4. Limitations of the research

1. A self administered questionnaire was the basis of the data collected and then analysed in this research. There is always a doubt in such tests that the non-respondents are biased in some way and therefore that the data collected may not represent correctly the target population. This is especially true in places like Israel where the response rate is expected to be low because such tests are not in very common use. Still, this method of collecting the data was the only way to reach the target population, which was composed of numerous people scattered all over the country. Every possible precaution was therefore taken to ensure that the data collected are not biased and that the target population is fairly represented.

In particular, it might be argued that those who took the trouble to respond to the questionnaires tended to be sympathetic to the municipality internal auditing operation. Since the rate of

responses was particularly high among the internal auditing respondents, this suggestion could be made mainly about the other respondent groups. There is of course no way to know whether there is any systematic difference in opinion between those who responded and those who did not; and very little has been written in Israel on response rates by mail questionnaire. As an added precaution, however, the author consulted experts from the Central Bureau of Statistics (a governmental agency), from Israeli universities and from a leading public opinions and research analyst company.

From these consultations, the author learned that willingness on the part of respondents to take part in such research is mainly determined by the respondents' readiness to fill in questionnaires in general, and by their interest in the topic of the research.

It would have been useful if some research were available on the reasons why people in Israel respond, or fail to respond, to mail questionnaires. As matters now stand, however, there is no reason to believe that those sympathetic (in whatever sense) to the subject of the questionnaire behave differently from any other respondent group in their readiness to respond.

In any case, it is reasonable to expect that, in the evaluation of each component of the effectiveness of the municipality internal auditing operation, the different respondent groups stood in more or less the same order relatively to one another. It follows that, even if people sympathetic to the internal auditing operation were over-represented in our sample, the only effect was to raise each mean values somewhat above the levels that would have been obtained had the whole population participated. The general results of the research would still be valid.

2. The author had intended to include in his research other respondent groups outside the municipality besides the journalists. Those other groups were linked either to the State Comptroller or to the Ministry of the Interior. Although top executives of those groups did co-operate with the author at different stages of the research, they were unexpectedly prevented by legal formalities from participating in the final test. It is to be hoped that those institutions will, in the future, change their policy so as to make available their perception of the effectiveness of internal auditing in municipalities in Israel.
3. This research has focused on municipalities since these are the only types of local authority in which

internal auditing is obligatory. In the second half of 1996, the Ministry of the Interior passed a proposal to require internal auditing in local councils as well. The implementation of such a decision is a long process, and at present (in 1997) this proposal is still in its initial stages.

4. Since this research has been performed in Israel, the model adopted for evaluating the effectiveness of internal auditing is appropriate primarily to Israeli municipalities; it may need to be modified to take account of future changes. However, there are some general results which may find application elsewhere.

1.5. Outline of the study

The study is divided into four parts.

Part one: Purpose and theoretical background of the study.

- Chapter one is an introduction to the study.
- Chapter two contains a review of relevant literature. It is followed by the suggested model and by the hypotheses the research aims to test.

Part two: Survey design and methodology.

- Chapter three explains the research methodology.
- Chapter four covers interviews that were held with representatives of different groups of users of

internal auditing in municipalities in Israel. Those interviews were used to refine the suggested model and, to a certain extent, the underlying hypotheses.

- Chapter five is about questionnaire development, sample selection and pilot testing.
- Chapter six describes and evaluates the respondents' participation in the self administered mail questionnaire and the data collected.

Part three: Empirical survey analysis.

- Chapter seven presents the descriptive analysis on the basis of the data collected.
- Chapter eight is about the factor analysis for the questionnaire used in the empirical research.
- Chapter nine tests the research hypotheses in the light of the data. It also looks for relationships between variables in the questionnaire and the components used in evaluating the effectiveness of internal auditing in municipalities in Israel.

Part four: Conclusion and recommendations

- Chapter ten will summarise the study, describe the conclusions and recommendations.

Chapter two

Municipalities and internal auditing in Israel

2.0.Introduction

This chapter is divided as follows:

The first part describes the environment in which the internal auditing operates in Israeli municipalities. The term environment is used in a broad sense and includes:

- (1) Historical perspective - A review of modern local government trends that have made the municipalities in Israel what they are today.
- (2) Organisational structure - Elected members, council, committees and departments.
- (3) Political aspects - Inside the municipality and the relationship with the central government.
- (4) Audit - Internal auditing and external auditing.
- (5) Legal aspects - "Ultra vires" principle and the legal basis for internal auditing.

The chapter will also analyse, from a theoretical point of view, whether the internal auditing unit in the Israeli municipality is perceived as having power. Then the model suggested by the study will be presented, followed by the hypotheses which the research sets out to test.

2.1. Perspective on the environment of municipality internal auditing

2.1.1. The Municipal Ordinance ("the Ordinance")

The modern development of local government started in this region in the second half of the nineteenth century. In 1877, the Ottoman empire adopted the Municipal Act, which required the election in every city of a council of six to twelve members, elected for four year terms. Every two years, half of the members were elected. The mayor was appointed by the central government from amongst the council members.

Only in 1934 did the British Mandate (which lasted from 1917 to 1948), replace the Ottoman legislation with its own Municipal Ordinance. The Ordinance itself was, as Gurion (1957:183) mentions, influenced by the municipal British legislation. Few amendments were made in the Ordinance during the Mandate.

Since the independence of Israel in 1948, the Ordinance has been amended more than fifty times.

Being a piece of "main" legislation, this Ordinance, which has never been replaced, may be amended only by the Knesset. The original Ordinance empowered the High Commissioner to install a municipality, if it was the population's wish and on recommendation of an

investigation committee. This power was, after 1948, transferred to the Minister of the Interior.

Local authorities are empowered to act within the limitations of the "Ultra Vires" or "outside their power" principle. They may formulate subsidiary legislation, which must be approved by the Minister of the Interior and, if necessary, by the minister in charge of the specific subject as well.

2.1.2. Development of the local authorities in Israel

After gaining independence, the new Israeli government initiated new local authorities. It wished to strengthen the local government institutions. But, as Elazar (1987:11) points out, matters did not turn out as foreseen.

The opposition parties in the Knesset lost control of most of the local authorities that were under their control before independence. Instead, new coalitions were formed under the leadership of the Labour Party ("MAPAI"), which was also leading the central government, and the Workers' Union ("HISTADRUT").

As waves of new immigrants arrived in Israel (1948-53), the apparatus in the political parties gained strength. The political parties started playing the role of broker

between the State and the local authorities, since they were forming similar coalitions in both.

In the mid-fifties, local government reached its lowest point in the political scene. The new immigrants were not yet seen as mature enough to participate in local government. The governing positions in those new municipalities were taken by outside representatives of the parties till "an adequate local leadership" would emerge.

In the late fifties, the situation started to change and a certain co-operation started between the central and local governments. The State took the responsibility for initiating new programs and formulating policies and budgets, while the actual operation of the services was more and more transferred to the local government. Such was the case with social welfare and education.

The significance of that co-operation lay, as Elazar (1987:12) stresses, in the necessity of the local government to form a cadre with administrative skills capable of supplying the required services.

The result, in the present author's opinion, was that the new local authority political leadership, aware of its electorate power, came to demand an increasing share of the national political power. The effect can be seen today in the high number of current or former heads of local authorities that are members in the Knesset.

2.1.3. Services provided by municipalities in Israel

The services provided by the municipalities in Israel encompass:

- Personal social services
- Education and related services (libraries, museums, arts and crafts)
- Housing and town development
- Town and country planning (local plans, development controls, parks, roads in urban areas)
- Environment services (local sewers, waste management, street cleaning)
- Recreation and tourism
- Religious services

Services requiring a statutory authority over areas wider than one local authority are run by joint authorities. Such is the case for fire fighting services or sewage.

The police in Israel is not part of the local authority. It operates as a national body under the central government.

The role that the local authority plays in social life enhances its importance in Israel. Local authorities need funds to maintain such services. Since they are limited in their tax-raising powers, their representatives have to

seek a financial contribution from the central government. As a result, according to Elazar (1987:16), those representatives spend nearly as much time in meetings with the central government as they spend in managing their local authority's affairs. Since the general trend is that the central government is transferring less and less funds, many local authorities find themselves in a deficit. On the one hand, the services are costly; on the other, the elected body will not volunteer to cut them back because they have an eye to re-election and most politicians do not plan beyond the voting date.

2.1.4. Local government - central government relationship

As Reuveni in Elazar (1987:167) points out, the balance of power between local and the central government varies from one local authority to another, depending on their size, their location and their economic and political specifications. In the financial area, the local authority's own sources of income and its ability to obtain public funding are very important. In the political arena, there is great importance in: a) the level of the local authority's integration in national politics. b) the use of political leverage due to its electorate's importance on the national scene. c) the level of the local residents' involvement in public life.

Following a governmental decision of December 1976, a Committee for Local Government Affairs was appointed. This Committee, named after its chairman, Mr. Zanbar, gave its final report in June 1981. The general trend of the Zanbar Committee report was its recommendation to diminish the control of the central government over local government. The present author's impression is that so far not much has been achieved in that direction. In some cases, the opposite is occurring. As an example, the Ministry of the Interior decides by what percentage local taxes are raised. Even municipalities that do not want to raise their local taxes that high must obtain the approval of the Ministry of the Interior.

This may change. In Globes (29/7/96), the new Minister of the Interior, Mr. Swissa, declared his intention to allocate more power to local authorities. This meant, as he explained, more freedom in their finances, including the raising of local taxes. In fact, as reported in Globes (18/11/96), the Knesset rejected the central government proposition of the previous week, to enable the local government to raise the municipal tax by up to 10% above inflation (about 11% in 1996). Instead a maximum increase of up to 5% above inflation was approved.

The reluctance of central government to increase local government's share of power is understandable. In the past, many heads of local authorities authorised certain operations without asking the approval of the central

government, even though legally - as Weiss (1972:84) mentions - it was not in their power to do so. In many local authorities, for example, local taxes collected did not comply with the legal restrictions nor were tenders always performed where needed (Gilon (1966:207)). More recently, the State Comptrollers' reports covering local authorities (1992 and 1995) confirmed those findings.

Because of those related discrepancies and others, the central government is tightening its control on local authorities. This is mainly done by the Ministry of Finance controlling the budget.

For example, the Municipality of Tel Aviv was paying, in 1993, high salaries in the form of special contracts to some of its top executives. The Ministry of Finance ordered the municipality to stop those salaries, described as far above the norm. Instead, the municipality was requested to restrict the salaries to the levels approved by the ministry. The executives in question were asked to pay back the difference to the municipality.

Another example of a perceived abuse of power is that regardless of their own financial situation, local authorities were giving reductions in municipal taxes to different groups of the population. As a result, the central government restricted the freedom of the local authorities to give reductions. New criteria for reductions were fixed for all local authorities in Israel. The new criteria fixed the maximum permissible reduction.

The State Comptroller, Mrs. Ben Porat (1993), stated that the deficiencies in local authorities' conduct were found across the whole political spectrum.

Kapach (1994) confirms the impression that something is wrong with the system. He explains that problems are inevitable in the different services where the local authorities act as the agent of central government (Health services, Education, Social work and Religious services). There ought to be a clear definition of what the local authority is allowed to spend; instead, at present, the expenditure is made and the local authority expects a full refund. This leads to deficit situations, when the refund is late or only partial. The present author would add that this situation is counterproductive to an effective control of the budget on an ongoing basis.

2.1.5. Direct election of mayors

During the British Mandate, the High Commissioner appointed the mayor from amongst the council members that had been elected. The High Commissioner could dismiss the mayor on the basis that he considered this to be in the interest of the city.

From 1949, the city council chose the mayor and the mayor's deputies. Since 1975, following changes in the law, the mayor has been directly elected by the electors. Elections in local authorities are held every five years

for both the council members and the mayor at the same time in the same ballot box.

Electors, men and women, must be over eighteen and reside in the local authority's jurisdiction. A candidate has to be over twenty-one to be elected to the council. Besides directly voting for the mayor, the elector will vote for a party, which in effect means voting for its list of candidates. There is no obligation to vote and the elector also has the right to insert a blank sheet for abstention in either election or both.

For historical reasons, the heads of the local authorities must be at the top of the candidate list of any party taking part in the elections. They must hold Israeli citizenship. Because of the voting system, it may happen that a candidate who is head of the local authority is elected, while the candidate's party does not have a majority in the council. That makes the task of the head of the local authority nearly impossible, unless the candidate manages to form a coalition with other parties upon which the candidate will greatly depend.

Kapach (1994) mentioned that from a control point of view, the best situation is when the council is composed of a majority representing the coalition and a minority representing the opposition. The two other possibilities are unsatisfactory situations:

(1) When all the members of the council belong to the coalition so that there is no opposition.

(2) When the party in opposition to the mayor holds the majority of the seats and is able, for political reasons, to paralyse the municipality.

Each mayor is entitled to appoint one deputy to serve as substitute during the mayor's absence. In addition, there are two or three other deputies per municipality: three are permitted only when the population of the city is above 250,000. Among the councillors, only mayors and their deputies receive a salary from the municipality.

The principle is that the municipality operates through the mayors. It is their duty to ensure that all the tasks for which the municipality is responsible are properly performed. Thus, the mayor is at the same time the political leader of the council and the top executive in the municipality.

In 1987, another amendment to the Ordinance recommended that municipalities with more than twenty seven council members should elect among themselves a chairperson apart from the mayor. This recommendation, however has not generally been put into practice.

It is noteworthy that, following the model of direct elections for mayors, which greatly strengthens the standing of the mayor, a similar law was passed by the Knesset for the direct election of the prime minister in

the central government. This law was implemented for the first time in the general elections of May 1996. Again, following the experiences of the mayors, some members of the Knesset, from both the coalition and the opposition, had reservations because they felt that it could strengthen the prime minister's position excessively.

2.1.6. The mayor – council relationship

The concept is that the mayor is the "operator" while the task of the council is to make policy.

Mayors may delegate some of their own power to their deputies, to the executives and to the municipality's employees. In fact, in order to be able to operate in conjunction with the council, the mayors very often need to form a coalition of different parties. The mayors will then delegate some of their own power to their deputies as part of a political deal. The national parties play an important role in local government and it is very rare to find a local party and not a national party holding power in a local authority.

This does not imply that the party in power in central government will also dominate local government. Looking at the situation before May 1996, the coalition in the central government was headed by the Labour party while two of Israel's biggest cities, Tel Aviv and Jerusalem, had coalitions headed by Likud party members. At that time the Likud was in the opposition to the central

government. This did not prevent Labour and Likud representatives from continuing to form a ruling coalition in some municipalities, the best example being in Tel Aviv.

The mayor submits an annual report in writing to the council every April and copies are made available to the public at the municipality office. The mayor must also present the councillors with quarterly reports, regarding the financial situation and the activities of the municipality.

The annual municipality budget, prepared by the mayor, is submitted to the council for discussion, in order to formulate a policy for the following year.

The municipality internal auditors in turn have to present the mayor and the audit committee with an annual report of their audits. Within three months, the mayors have to submit their comments on that report to the audit committee and to all the members of the council. Within the next two months, the audit committees are supposed to submit their conclusions and recommendations to the council. The annual reports are published and are given general coverage by the newspapers, mainly the local press.

In addition, municipality internal auditors are entitled to present the mayor and the audit committee with an audit report whenever they think it necessary.

2.1.7. Committees in the local authority in Israel

2.1.7.1. Compulsory Committees

(The members are generally council members only)

(1) The Management Committee - It is compulsory for the local council, but whether such a committee is needed in the municipality is for the council of each municipality to decide. If the council sets up a committee, its members will include the mayor, the mayor's deputies and other council members as decided by the council.

(2) The Audit Committee - The task of this committee is to discuss the external audit reports, mainly that of the State Comptroller (when there is a report related to the municipality) and the municipality internal auditor's report.

In a famous verdict, the court (High Court Justice 531/79) forbade the participation of any member of the management committee in the audit committee of the municipality, since - it declared - there was a conflict of interest between those two tasks. The court held that it was not possible for the auditors to audit themselves. The law had previously debarred only the mayors and their deputies from being members

of the audit committee; and the court created a further limitation.

The number of members in this committee is limited to seven. Its members will represent, as far as possible, the different political components of the council.

The head of the audit committee must be from a different party than the mayor's, and traditionally this position is offered to a member of the opposition.

The members, more often than not, lack any appropriate professional background. They are representatives of political parties, both from the coalition leading the municipality and from the opposition. In either case, political affiliation may interfere with the objectivity of the individual in the audit committee and may therefore impair the operation of the audit committee as a whole. This situation weakens the audit committee and indirectly affects the municipality internal auditing unit.

It is worth pointing out that the Treadway Commission (COSO, 1992) recommended that all public companies be required to establish audit committees composed solely of independent directors, who are professional and objective.

In the context of USA local government, Sharp and Bull (1992) recommended that in municipalities the chairperson and the majority of the audit committee - which they preferred to call the "information oversight" committee - be composed of people who are outside of city government. Those outside members should have the competence and bring with them the objectivity, without any political agenda, needed for the committee.

Sharp and Bull's recommendation, which does not exclude councillors from the audit committee, seems equally applicable to audit committees in Israeli municipalities.

(3) The Tender Committee - Compulsory in both municipalities and local councils.

(4) The Finance Committee - This committee is compulsory in municipalities but not in local councils.

The present author agrees with Shafat (1992:39), that in municipalities the finance committee, being compulsory, tends to be granted "de facto" all the tasks that would otherwise have fallen on a management committee. That may be the reason why the management committee is not obligatory in municipalities.

(5) The Security and Special Emergency Committee - Compulsory in both municipalities and local councils.

In this committee, there is an obligation to include not only the council members, but also representatives of the Ministries of Defence, Police and Education and other members, as the council itself may decide.

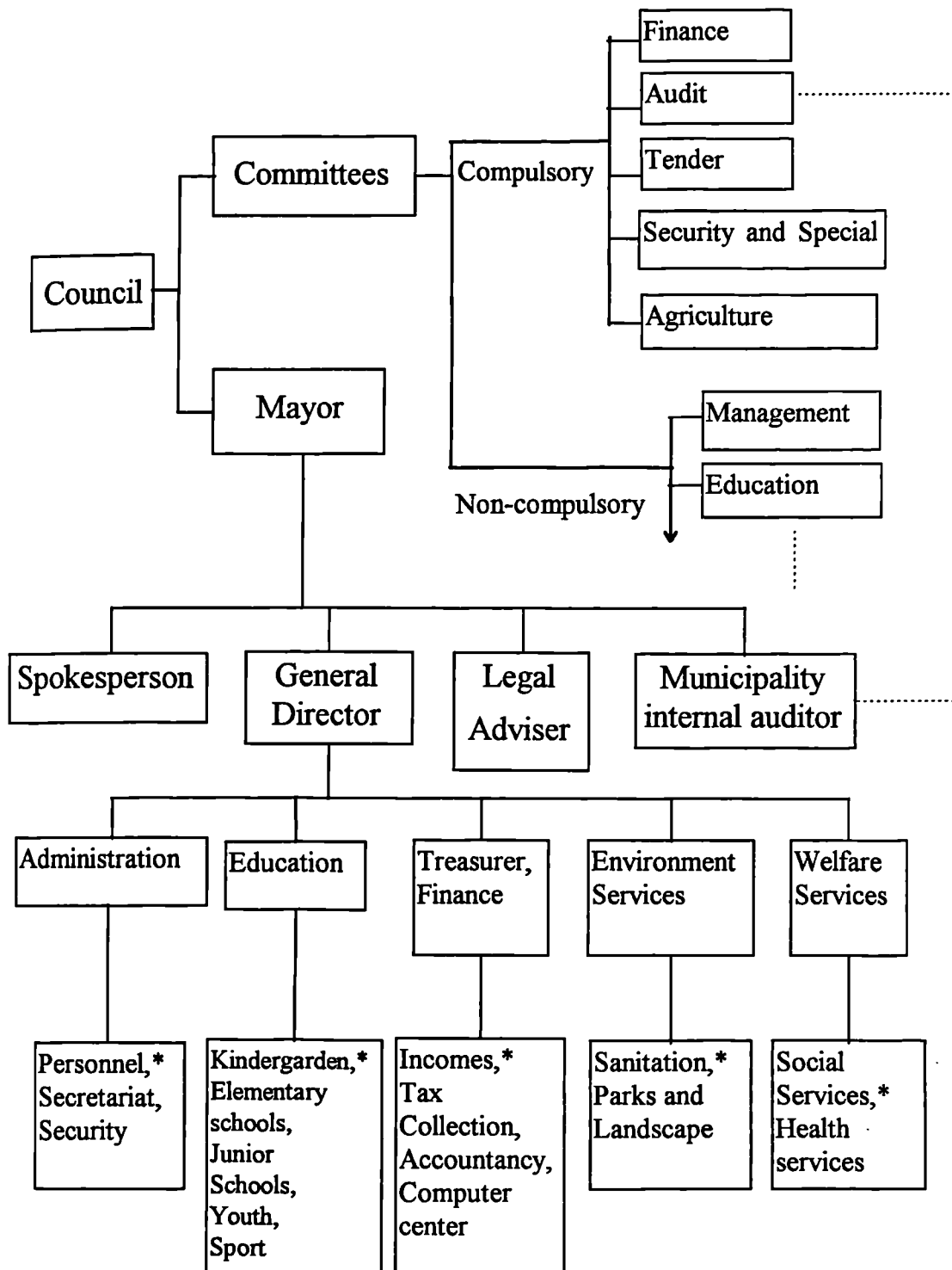
(6) The Agriculture Committee - This committee is compulsory in municipalities having a population of less than 100,000, subject to certain criteria (minimum number of farmers among the population, minimum agricultural area).

2.1.7.2. Non-compulsory committees

These are not limited as long as at least one fourth of the members are council members (representing adequately the political components of the council). A common example is the Education Committee.

2.1.7.3. General rules for all committees

Committees are in power as long as the local authority council is in power. Committees are sovereign to form sub-committees. Committees will fix their own work procedures. The head of a committee has to call for a committee meeting if a third of its members or the council or the mayor requests it.



*The internal subdivision is not shown in this diagram

The author designed this diagram on the basis of different reported oral and written information from official sources in Israeli municipalities.

Figure 2.1 Example of a typical Israeli municipality internal organisational structure

2.1.8. Statutory positions in municipalities

There are some statutory positions in municipalities: the municipality secretary (in other words, the town clerk), the treasurer (who is the chief financial officer), the engineer, the sanitary supervisor, the medical and veterinarian officers, the internal auditor and the legal advisor. The literal translation from Hebrew of the municipality internal auditor is "the municipality auditor", but this study will use the term "municipality internal auditor".

All the holders of these statutory positions must be appointed with the approval of the council. Other positions do not need the council's approval. The appointment of a general director of the municipality, which started first some twenty years ago in Jerusalem, has gained popularity in other municipalities as well. In many ways, this position is a new version of the municipality secretary. Since they do not need the approval of the council, the heads of the local authorities can appoint whoever they wish to this position, in addition to the municipality secretary. This is possible even when the head of the local authority is not supported by the majority of the council.

2.1.9. Internal auditing in municipalities

In the late sixties, it was suggested in the Knesset that municipalities should appoint internal auditors. The idea, according to Shafat (1992:91), was that they would audit the activities of the whole municipality administration, as well as the elected members of the council. They would report to the audit committee only.

In the amendment approved by the Knesset in 1971, the concept was different: the internal auditors of the municipality were seen as "the eyes and ears" of the mayor. As such, they could fulfil their job by following the mayor's directives. They could not audit the activities of the mayor or of the other elected members. Nevertheless, they were asked to present their annual reports to all the members of the council. The amendment declared that there should be a municipality internal auditor in every city with a population of at least 30,000. Even if its population was smaller, the city could be asked to appoint one by the Minister of the Interior. Later on, in another amendment to the Ordinance, approved by the Knesset on 7.2.90, every city council was requested to appoint a full time internal auditor. However, if the population was less than 30,000, the Minister of the Interior could approve a part-time (not less than half time) internal auditor, as long as the appointee's additional job was as an internal auditor in another municipality.

The present author believes that the reason that part-time municipality internal auditors were not allowed to hold any additional post other than as a part-time auditor in another municipality, was to avoid any conflict of interest between the holder's jobs. However, the requirement is more restrictive than was necessary to achieve that aim. In the present author's opinion, it would have been enough to require the municipality internal auditor not to hold any other job that may create a position of conflict of interest. However, the whole problem no longer arises. Following another amendment in 1995, no municipality is allowed to have less than a full-time municipality internal auditor.

In meetings with the Knesset, held before the amendment of 7.2.90, the I.I.A. (Israel) – including representatives of the municipality internal auditors – hoped that the subject of the budget would also be included. They requested a law to ensure that the budget of the municipality internal auditing unit would not be lower than 0.5% of the total regular budget of the municipality. This request was not granted. There are as yet no directives for the municipality regarding the budget of the internal auditing unit or the size of its staff. An article in Haaretz (26/12/90) recommended in that context, without entering into details, the idea of setting up criteria to fix the size of the municipality internal auditing unit's budget and staff. The present author

agrees with this recommendation, which can help the municipality internal auditing unit in fulfilling its task. Proposed criteria should take into account different variables such as:

- (1) The municipality budget
- (2) The municipality staff size
- (3) Population
- (4) Municipality jurisdiction area
- (5) The different activities in which the municipality is involved.

According to Amrani (1996:30), the Ministry of the Interior intends to publish criteria upon which the size of the municipality internal auditing staff will be decided.

Friedberg (1994) - has compared local authorities in the USA in respect of population, annual budget, annual internal auditing budget, percentage of internal auditing budget as part of the total budget, and the members of professional and administrative personnel of the internal auditing unit. He concludes that in the USA also, local authorities do not have criteria for fixing the budget and personnel numbers needed to perform the jobs of internal auditing. The present author wonders whether this is because of genuine difficulty in deciding on the criteria or whether there is a desire to limit the power of the internal auditing unit, out of apprehension on its

potential criticism of government. Without adequate budget and personnel, even the most independent internal auditors will not be able to perform their jobs properly.

From 1979 onward, the amendment made it clear that the municipality internal auditing unit is entitled to check "the operations of the municipality and the operations of the municipality's employees". Previously, the municipality internal auditing unit could check only the activities of the municipality's employees. The use of both terms in the amendment ensured that the municipality internal auditing unit could audit all the activities of both the employees and the elected members of the municipality. According to Rozevitch (in Interior (1989:210)), the rise in the status of the directly elected mayor was the impetus for strengthening the position of the municipality internal auditor and for making the audit committee compulsory.

Quoted in Haaretz (29.12.93:11), the former chairperson of the audit committee in the municipality of Tel-Aviv states that the directly elected mayor has absolute power. Such power neutralises the council. In contrast to small local authorities with very small budgets, big municipalities have a high concentration of business and income, and thus can spend more in development. The former chairman of the audit committee claims that the mayors can do whatever they like. He explains that the mayors can compensate different officials in different ways:

- a) the councillors, members of the coalition - by delegating power. (In addition, if necessary, the mayor can also reach an ad-hoc agreement with members of the opposition by contributing to projects they support, in return for their backing the mayor on certain resolutions.)
- b) the top executives in the municipality - by improving their benefits.

That creates a dependency on the mayors.

In the same article the mayor of Tel-Aviv answers this criticism. He agrees that the mayor is the dominant person in the municipality but he considers that that is exactly what the job entails. The mayor is in charge of Tel-Aviv and will be judged by the electors according to the results.

The supreme court, when requested, does not hesitate to intervene in implementing the law regarding the municipality internal auditor and the audit committee. At the end of September 1994, it commanded the mayor of Affula to explain why a municipality internal auditor was not being appointed in the municipality. The mayor was also requested to explain why the appointment of a councillor from the coalition as chairperson of the audit committee was not annulled. The appeal to the court was made by councillors of the opposition in the municipality of Affula.

By law, the municipality internal auditors prepare their work plan, taking the following points into consideration, in this order: their judgement, the mayor's request to check certain subjects and, as far as possible, the audit committee's recommendations. The municipality internal auditors will decide, using their own judgement, how to perform the audit. They can audit any subject. Any document they need, either from the mayor, the mayor's deputies, the councillors or the municipality employees, must be provided at their request. The same goes for any other information they need.

2.1.10. Other auditors

2.1.10.1. The State Comptroller's Office

By contrast with England, the State Comptroller's scope of work includes not only the central government, but also the local government. There is a special department in the State Comptroller's Office in charge of performing that audit. The scope of this department includes the auditing of many local authority bodies. However, there is only a limited number of personnel to fulfil the job. Therefore, the audit of local authorities is performed at a low frequency and cannot replace the municipality internal auditing unit. When the State Comptroller audits a certain municipality, it may assess the internal auditing unit and make use of that unit's reports.

Friedberg (1988:45) noted that in order to solve the manpower problem, the State Comptroller had moved to tackle horizontal assignments. The State Comptroller would check out a certain subject in many different authorities. From a personal communication (1994), the present author was informed that comparisons between different authorities from those horizontal assignments were not conclusive. Therefore the State Comptroller is still continuing to audit individual local authorities fully. In the State Comptroller's report on local authorities of 1995, which covered about three years, there were not only three horizontal assignments, but also ten reports on individual local authorities. A similar pattern appears in the State Comptroller's report on local authorities of 1996, where there are, in addition to horizontal assignments, eight reports connected to individual local authorities.

Employees in public administration have requested protection against losing their jobs when warning against irregularities, or in other words whistle-blowing. This may happen to anyone, but due to the nature of their job, internal auditors will find themselves particularly often in such situations: the municipality internal auditor included (Haaretz 12/1/89:12).

The State Comptroller was active some three years ago, in her other capacity as the State's Ombudsman, in the passing of an amendment protecting any person reporting on

irregularities in the administration. According to the amendment, such persons if dismissed would have to be reinstated. Regarding the municipality internal auditors, the problem is that in such cases, they could not expect, upon reinstatement, to have the co-operation they need. This is true for any internal auditor, but more so for municipality internal auditors. The latter are the only internal auditors who publish their reports to the public. As such, they must, by law, report their findings, some of which may be very sensitive. Their reports may be used by political forces against the present elected body. Therefore, the right to reinstatement is not a real solution to the problem. The solution must be found elsewhere.

The dilemma is between having:

- a) Internal auditors who, by definition, report to a superior at a high level of the body they audit. These superiors in fact decide on the internal auditors' promotion and position. Therefore, it is doubtful whether the internal auditors will be eager to start an audit related to the very people who decide their future.
- b) Auditors appointed by an external body, who will not be genuine internal auditors.

Later on in the study, following the empirical research, some recommendations will be suggested on that topic.

2.1.10.2. The Ministry of the Interior auditors

The Ministry of the Interior has its own small auditing unit (half a dozen auditors) which audits local authorities.

In 1994, with a new director in charge of the unit, there was a change in policy. The unit, instead of mainly receiving reports, put more emphasis on performing its own audits in different local authorities. In 1994, as reported by Amrani (1995), it performed 25 audits: 9 in municipalities, 11 in local councils, 3 in regional councils and 2 in joint authorities for fire fighting. The council on which the report is made has to discuss it. In fact, members of the opposition will find ways to quote from it in the local newspapers for political reasons. This, according to Amrani (ibid.), creates additional pressure to correct any deficiencies discovered.

According to the amended Ordinance, the local authority's chief financial officer has to submit the local authority's financial report to the municipalities' accountant, appointed by the Minister of the Interior. As of January 1996, the function of municipalities' accountant is discharged by the director of the department which audits local authorities in the Ministry of the Interior. The auditing unit and the municipalities' accountant generate rules and procedures for the financial control and supervision of the local authorities'

operations. These include auditing the annual financial reports and analysing the financial results.

The local authorities are asked to submit their financial reports five months after the end of the financial year. Until 1994, it was not compulsory for these reports to have been audited by certified public accountants. Every year, the Ministry of the Interior would hire the services of private CPA firms to verify the financial reports submitted and to prepare audited financial reports for some of the local authorities. In 1990, the ministry appointed some seventy accountants' offices for eighty-five local authorities (Education and culture (1991:284)). From 1994 onwards, however, all local authorities are being audited by external CPA firms. A proposition has been submitted to amend the law so that local authorities, rather than the Ministry of the Interior, can hire their own external CPA firm (Globes 30/10/96).

2.1.11. The municipality internal auditor's reports and the media

The role of the municipality internal auditor was very much modelled on that of the State Comptroller. Still, it is important to bear in mind that the State Comptroller performs an external audit, while the municipal internal auditor performs an internal audit. Moreover, the State Comptroller is appointed by the Knesset while the

municipality internal auditor is appointed by the council. In the Knesset, the head of the State Audit Committee is from the opposition and membership of the committee is confined to Knesset members only. In the council, the structure is analogous, with the audit committee composed of council members only. One other common feature, is that the municipality internal auditor, like the State Comptroller, submits an annual report which is open to the public and covered by the media. There are many important differences as well. However, it is not the intention here to present a full comparison.

According to Sharkansky (1987) all that the auditors can do is to produce and publish the report, since they do not hold any operational authority. Here the remark by Richards (1983:178) is apposite, that publicity has a stronger impact in the local context than on the central government administration. However, even for those who see publicity as the audit's ultimate weapon, one has to remember that the news of today is history of tomorrow.

There are close relations between big business contractors, the mayor and the councillors. This is natural, given that the mayor and councillors wish to develop the city and attract investors. On the other hand, this situation is quite delicate and could lead to "special arrangements" between contractors and certain persons who have a say in the municipality.

In recent years, as stated earlier, there were many cases of heads of local authorities being brought to court to face corruption charges. One recent case concerned the former mayor of Ramat Gan. This mayor was found guilty by the court of having accepted a so-called donation. That money was, in fact, intended to fuel a public relations campaign for himself. In return, the mayor was expected to present a positive view in the municipality regarding the donor's request (Globes 2/9/94).

An article in Globes (26/8/94) called for a strengthening of the municipality internal auditors' position. The idea was to make them more independent. The suggestion was to form a group of municipality internal auditors in the State Comptroller's Office, that would be assigned by the State Comptroller to the municipalities. The idea may have some merit, but it is doubtful whether, in the municipality, the audit will be seen as an internal audit any more. The auditors will instead be seen as the representatives of the State Comptroller rather than as integral parts of the municipality organisation. This idea will be discussed later, on the basis of the results of the empirical research.

The media has an ambivalent relationship with the municipality internal auditors: On the one hand, it is very sympathetic to their delicate situation in the municipality and presents the public with the main findings in their report. On the other hand, it

criticises the inability of the municipality internal auditors to enforce the implementation of changes. As stated in Haaretz (31.12.90:9), based on the chapter dealing with follow-up in the annual internal audit report, most recommendations of previous reports had not been implemented. More recently in the Tel Aviv Journal (27.6.97:22), the same criticism was made concerning the annual Tel Aviv internal auditing report.

2.2. Power of the municipality internal auditing unit theoretical analysis

2.2.1. Introduction

The trend today is for the director of the internal auditing unit to report to the highest levels in the organisation, such as the chairperson of the board, audit committee, or chief executive officer (Reinstein & Gabhart:1987; O'Shaughnessy: 1990; and others). In Israel, in paragraph 5 of the Internal Auditing Act of 16.3.92 regarding various public bodies, it is provided that the director of the internal auditing unit in a central government ministry will report either to the minister or to the general director of the ministry. In public sector companies, usually the director of internal auditing reports to the chairperson of the board.

Turning specifically to local authorities, the position of the internal auditing unit in the organisational structure of the municipality differs from one country to another.

In the USA there is no one model of organisational structure for internal auditing in municipalities. The whole spectrum exists from the internal auditing unit being part of the financial department to being an independent unit (Friedberg 94).

In England, the internal auditing unit is part of the finance department, and the head of internal auditing reports to the chief financial officer.

In Israel it is an independent unit and the head of internal auditing, the municipality internal auditor, reports to the mayor and to the audit committee.

Since the present study invited the participation of respondents to evaluate the effectiveness of municipality internal auditing, it is important to introduce the concept of perception.

Another important concept is power, or more specifically, power in organisations. Though internal auditing, as a control, must lie outside the routine operations in the organisation, the question remains whether it exerts power over other units inside the municipality. The question is particularly relevant in Israel, since the internal auditing unit is an independent unit that is supposed to operate at all levels of the municipality. The

municipality internal auditor thus enjoys high status; but this need not imply the power to enforce changes, directly or indirectly, when deficiencies are found.

2.2.2. Perception

People respond to what they perceive. These perceptions may vary from one observer to another.

As Coxon & Jones (1978:1-2) report, empirically oriented sociologists have found that the perception of occupations is statistically related to a host of other characteristics, such as formal educational qualifications or socio-economical background. The term "perception" as applied to occupations does not refer solely to perceptual processes that occur when an individual is confronted with relevant stimuli. Rather, it also refers to the complex of beliefs and assumptions which exist in the individual's memory.

According to Trope (1986), human perception has two major components: Behavioural identification (what is the actor doing?) and attributional inference (why is the actor doing it?). The first of these processes involves categorising an action – in the context of this study, it would mean naming the type of work the internal auditing unit is doing. The second process involves causal reasoning about the categorised act – in the context of this study, it would mean allocating the work to the area of internal auditing.

Users make decisions about products and services based on their perceptions of them. The entity making the decisions may even be the "self" creating the products and services. The "self" in this study is the internal auditing unit.

Wright & Bargranoff (1995) have examined the gap that may exist between internal and external auditors regarding the image each group has of internal auditors. The external auditors are users who make decisions about how and when to use the services of internal auditors in conducting the financial audit. The population used by Wright and Bargranoff for their research comprised the members of the Central Virginia and Washington, DC chapters of the Institute of Internal Auditors and the Richmond and Washington, DC chapters of CPAs. It was found that the internal auditor's self image is significantly higher than the external auditor's user image. Wright and Bargranoff concluded that "image problems and communications may impede the efficiency and effectiveness of financial statement audits and should be addressed by both groups."

In the present study, different groups of users and municipality internal auditing staff were approached, in order to identify each group's perception of the effectiveness of internal auditing in municipalities.

2.2.3. Power in organisations and internal auditing in municipalities

The president of Israel has the highest status in the State, but not much power. The president is mainly expected to represent the State on formal occasions. For that, not much power is needed.

The municipality internal auditors are among the highest ranking officials of the municipality. They are in charge of an independent unit, which has a certain job to fulfil. Yet, as the chapter regarding follow-up in the internal auditors' report shows again and again, many of the same deficiencies detected were not corrected. This is stressed by the media, covering the annual reports presented by the municipality internal auditors. The explanation given by observers is that the internal auditing unit has "no teeth", i.e. no power. Does this show that the internal auditing unit in municipalities needs greater power, direct or indirect? Indeed, does the internal auditing unit need power at all in order to perform its job?

In England, the municipality internal auditing unit is part of the finance department. The heads of internal auditing report to the chief financial officers. The status of the heads of internal auditing, in comparison to their Israeli counterparts, is lower; but they may have the power that will make the English auditees correct the

deficiencies pointed out to them by the internal auditing unit.

Hall (1972:204-242) has summarised, in the section dedicated to the nature of power in organisations, the essence of what has appeared in many treatises on the subject. He points out that most treatments of the concept of power in organisations are in general agreement that power has to do with relationships between two or more actors, in which the behaviour of one is affected by the other. Hall (ibid.) quotes the political scientist Robert Dahl who defines power as follows: "A has power over B to the extent that A can get B to do something B would not otherwise do." Therefore, a person or group cannot have power in isolation; it has to be in relationship to some other person or collectivity. The present author believes that the ideal final report of an internal auditor is a report written at the end of an audit in which deficiencies, have not only been found and pointed out, but actually corrected by the department in charge before the completion of the audit. This would seem to mean that the internal auditing unit "A" has power over the department "B". What power, if any, will be determined later on. If the concept of the internal auditing unit working in "real time" is accepted, then the idea of power may also have to be accepted. Hall (ibid.) mentions, quoting Emerson, that the parties in a power relationship are tied to each other by mutual dependency.

This dependency is particularly obvious in organisations, since the very nature of organisations requires interdependence of personnel and subunits.

Hall (ibid.) proceeds to quote the sociologists French & Raven, who classified the power concept on the basis of interpersonal power. Their conclusions can easily be extended to the organisational level. Their typology is based on the nature of the relationship between the power holder and the power recipient:

- (1) Reward power - based on the power holder's ability to reward
- (2) Coercive power - based on the recipient's perceptions that the power holder can distribute punishments.
- (3) Legitimate power - based on the recipient's knowledge that the power holder has the right to influence the recipient.
- (4) Referent power - based on the fact that the recipient identifies with a power holder and tries to behave like the power holder.
- (5) Expert power - based on the special knowledge attributed to the power holder by the recipient.

Hall (1972:208) concludes that all these forms of power are found in organisations.

The next step is to analyse which categories of power relate to the municipality internal auditing:

- (1) The internal auditor cannot reward. Therefore, it cannot be reward power.
- (2) It is conceivable that the auditees would perceive the municipality internal auditing unit as capable, if not directly then indirectly, of distributing punishments, in the sense that a bad report may harm the auditees. Therefore coercive power is possible.
- (3) It is not clear whether the auditees perceive the municipality internal auditing unit as having the right to influence them. The answer may depend on the management level of the auditees, in relation to the auditor.
- (4) It is not referent power, since there is no reason why the auditees would try to behave like the auditor.
- (5) To some extent, depending on the auditor's and auditees' educational and professional background and on the field audited, there is a possibility of expert power. In most cases, however, on the contrary, the auditees feel they are the experts and have nothing to learn from the auditor.

This typology was based on the nature of the relationship between the power holder and the power recipient. Since

the present study is concerned with the operation of the unit rather than the individual, it will later use the concept that organisations are systems of interdependent units, in order to evaluate the power of the municipality internal auditing unit.

Perrow and Crozier (Hall (1972:225-227)) arrive at the conclusion that the most critical function in an organisation tends to have the most power. Since internal auditing is not part of the ongoing operation, its function may be important, but not critical. The finance department would be a much better candidate. As Landsberger deduced, when money was scarce and uncertain, the accounting unit was powerful (Hickson and others (1971:226)).

Pfeffer (1992:69-70) stresses that the factors that create the power of an organisational position are: control over resources, control and access to information and formal position. According to him, the most critical source of power is being at the right place, rather than any individual attributes. Pfeffer (1992:87) describes the situation in the motor companies, where finance became the most important function at Ford and General Motors. Finance came to power when it gained control over the planning, capital budgeting and operations research processes. It was then able to convince others that the critical functions in the operation of the company were located in the finance department.

On the basis of the concept that organisations are systems of interdependent subunits, Hickson and others (1971) have presented a 'strategic contingencies' theory of intraorganisational power. This theory states that the power of a "subunit is related to its coping with uncertainty, substitutability and centrality through the control of strategic contingencies for other dependent activities." A contingency is a requirement of the activity of one subunit which is affected by the activities of another subunit.

According to this theory:

- (1) The better a subunit copes with uncertainty, the greater its power within the organisation.
- (2) The lower the substitutability of the activities of a subunit, the greater its power within the organisation.
- (3) The higher the pervasiveness and the immediacy of the workflows of a subunit, the greater its power within the organisation.
- (4) The more contingencies are controlled by a subunit, the greater its power within the organisation.

Each factor is necessary but not sufficient for control of strategic contingencies. Together they determine the variation in interdependence between subunits.

The model is based on the assumption that power relations in the organisation are based on contingencies.

Organisational dependency is caused by the fact that the organisation depends on different external sources. Those sources are controlled by different subunits in the organisation. The power distribution creates interdependency between the subunits of the organisation.

The 'strategic contingencies' theory of intraorganisational power integrates different approaches that have been briefly presented in this chapter. The internal auditing unit in Israeli municipalities is, as has been noted already in this study, a separate department. The 'strategic contingencies' theory of intraorganisational power does not take account of personal factors as it deals with the power of a subunit and not of an individual. Therefore, it seems appropriate to use this theory to analyse the nature of the power of the internal auditing unit within the municipality. The theory mentions that:

- (1) "The better a subunit copes with uncertainty, the greater its power within the organisation".

Internal auditing does not cope with uncertainty. No department depends on the internal auditing unit for its ongoing operations.

- (2) "The lower the substitutability of the activities of a subunit, the greater its power within the organisation."

According to some, internal auditing could be replaced, not as a function but as an internal and organic unit of the organisation. This happens in some local authorities in England, where internal auditing is performed by external firms in the framework of compulsory competitive tendering (Tombs: 1992). In Israel, it is also done to a certain extent: it is quite common for municipality internal auditors to have external free-lance auditors perform specific audits on their behalf.

In the Israeli context, it must also be kept in mind that the State Comptroller and the department auditing local authorities in the Ministry of the Interior audit the municipality in much the same way as the internal auditing unit. Therefore, it does not seem that the substitutability of the activities of the municipality internal auditing is low.

(3.a) "The higher the pervasiveness of the workflows of a subunit, the greater its power within the organisation."

The workflow pervasiveness is defined as the degree to which the workflows of a subunit connect with the workflows of other subunits.

The municipality internal auditing unit has pervasive connections with all other subunits through the auditing it performs, though not continuously.

(3.b) "The higher the immediacy of the workflows of a subunit, the greater its power within the organisation."

It is hard to say that immediacy is a characteristic of the internal auditing unit's work. Taking, for example, the case of the annual report: it is legally permissible to take up to five months from the time it is presented to the mayor and to the audit committee till the council discusses the report.

(4) "The more contingencies are controlled by a subunit, the greater its power within the organisation."

This is not, in fact, an independent variable, but rather a result of combining (1)-(3) above.

Since the present study used the above model as a theoretical basis, it seems that based on {1}-{3} the municipality internal auditing unit in the Israeli municipality would score low in power.

The high status of the municipality internal auditor explains the high expectations people may have of internal auditing in municipalities. However, the lack of power as analysed in this chapter may prevent the internal auditing unit from being instrumental in the application of corrective measures, when needed, in practice. This gap between expectations and performance is expected to affect the perceived effectiveness of the municipality internal auditing unit. This may be even more true among the users

that do not take part in the ongoing operation of the municipality. This situation sharpens the importance of this study to evaluate, in an empirical manner, how the effectiveness of the municipality internal auditing unit is perceived.

2. 3. The audit expectation gap in the literature

The present thesis demonstrates a gap, in public perception, between expectations and the actual performance of the municipality internal auditor. That perception may be expected to be relatively rare among internal auditors themselves. Internal auditors are generally isolated from the public, though not in the case of municipality internal auditors in Israel, whose reports must by law be publically available.

There is a difference between what the public believes to be the auditors' responsibility and what the auditors themselves believe. This difference is commonly called the audit expectation gap. A considerable body of research already exists on this topic in relation to the external audit function. The following paragraphs summarise that research, with a view to its relevance to the municipality internal audit.

Auditing is not an exact science, and was never designed to verify with absolute accuracy the information contained in the financial statements. Moreover, professional statements and statutory declarations by

auditors tend to rely heavily on subjective terms such as reasonableness, adequacy, relevance and judgement. This practice tends to cloud the audit process with a large degree of uncertainty. Consequently, even though the audit is in theory linked to ideals of organisational transparency and accountability, its results are themselves very opaque to the wider public.

The public, particularly those who use financial statements, believe (Guy & Sullivan 1988) that auditors should: Assume greater responsibility for the detection and reporting of fraud and illegal acts, improve detection of material misstatements and communicate early warnings about the possibility of business failure. The major investigations into the nature and regulation of the audit services market have in fact been closely connected to the failure of auditors either to detect major fraud or to provide advance warning of an impending corporate collapse (Humphrey, Moizer & Turley, 1992; Power 1994:48).

Various commissions have been set up in the USA, the UK and Canada to investigate the expectation gap. In 1974, the Cohen Commission was set up by the American Institute of Certified Public Accountants with the specific task of making recommendations on the responsibilities of auditors. In 1975, the Metcalfe Committee was established by the US government to investigate and suggest ways of improving the

accountability of publicly owned corporations and their auditors. In 1976, the Moss Committee was set up by the House of Representatives which was also concerned with standards of corporate accountability. In Canada, the Canadian Institute of Chartered Accountants established in 1987 a group called the "Special Committee to Examine the Role of the Auditor" (the Adams Committee). Many of these investigations found that a gap between performance and expectation did exist, and that this was not due just to ignorance on the part of users of accounting information.

More committees to deal with audit expectations were set up in the 1980s. In the USA, two congressional committees were established. The first was the Brooks Committee, concerned with the quality of CPA audits of federal expenditure which had been reported as being substandard. The other was the Dingell Committee, concerned with the effectiveness of independent accountants who audit publicly owned corporations, and with the effectiveness of the SEC who audit those accountants.

Meanwhile, the private sector established the National Commission of Financial Reporting, an accounting-funded development, chaired by James Treadway, which became known as the Treadway Commission. The Treadway Commission reported in October 1987 with a number of recommendations including restatements of the auditor's

responsibility for fraud detection and quarterly reporting. Approximately at the same time, in 1988, the profession's Auditing Standards Board produced ten new statements on auditing standards, known as the expectation gap standards, covering such issues as the detection of fraud and illegal acts, the assessment of internal controls and audit reporting. In Canada likewise, the Canadian Institute for Chartered Accountants established the McDonald Commission with the specific task of investigating public expectations regarding audits. In the commission's view, the expectation gap will only be narrowed by the profession's acceptance of the need for change and improvement.

Humphrey et al (1992) after presenting a historical review of the expectation gap of the last 100 years, reach the conclusion that "both the existence of a gap and the specific aspects of audit performance it comprises have shown considerable continuity and resilience against solution". This intrinsic problem has been tackled by auditors in two different ways. One approach starts out from the fact that the nature of auditing and the various rules and responsibilities of auditors are poorly understood by non-auditors, and therefore focuses on "educating" the public about auditor responsibilities and reassuring them as to the standards of audit performance. The other approach

regards public expectations as a guide to the direction in which audit responsibilities ought to develop, and so conveys a willingness to change audit activities to meet public concern.

Humphrey (1991) analyses the content of the expectation gap on the basis of three main aspects of the audit function: 1) audit assurance 2) audit reporting 3) audit independence.

Audit assurance

Lee and Beck, separately, as quoted by Humphrey (1991), identify different problematic attitudes regarding the financial statements. According to Lee, the audit report is viewed frequently as a certification, a guarantee of accuracy, rather than a statement of probability. Thus the users of audited accounts perceive the audit function to be broader than that performed or perceived as legitimate by many auditors. The usual response, according to Humphrey (1991:10-11), is that such public expectations are unreasonable, and are due to a general lack of understanding of the audit function. Beck, by contrast, found considerable support for the view that the audit is designed to give assurance on the efficiency of management and the financial soundness of the company, and that the public is entitled to high expectations. Humphrey comments that this view, though controversial, is quite

acceptable in the context of public sector auditing. This is especially so if one takes into account the Audit Commission in the local government sector, where the auditors are explicitly requested to perform value-for-money or operational audits.

Audit reporting

The expectation gap is often framed in terms of a codification problem: if users better understood the code used by auditors in reporting their opinions, they would more accurately perceive the messages intended by the various forms of audit reports. Accordingly, the expectation gap standards (1988) and the Treadway Commission (1987) recommend the use of language more understandable to non-expert readers of reports. However, according to Humphrey (1991), as long as there is not one all-embracing definition of the audit function, a standard perception of audit assurance and standard presentation of audit reporting, the confusion will persist.

Audit independence

This topic is at the core of the audit expectations debate. The concern has been that auditors do not operate with sufficient independence. The Cohen and Metcalfe Commissions and the Dingell Committee were both worried that competitive pressures were affecting audit quality. The question is why auditors should behave

honestly when they are not economically independent of their clients and hence have some economic interest to lose by being honest.

According to Moizer (1991), there are two principal reasons to expect the auditors to behave honestly despite their dependent position. First, it can be argued from the economical point of view that a false statement can yield two accumulating damages; the cost of a successful legal action for negligence, the cost of a loss in reputation and consequently in fee income. Second, from the ethical point of view, the professional ethical guidelines on the subject are *unequivocal*: auditors are expected to report truthfully irrespective of the consequences. To guard against pressure from the client, it is necessary either to reduce the auditor's interest in the client or to reduce the powers of the directors of the client company to sack the auditor. Moizer (1991) believes that legislation or even self-regulation by the profession would suffice to safeguard the auditor's independence, provided the enforcement procedures are tough enough. Turley & Sherer (1991:58) incline towards self-regulation: they write that if "within a basically self-regulating framework, the auditing profession is seen to be responsible, independent and accountable, and to have control over its members, the state, as well as the profession, will benefit".

In 1991, the Consultative Committee of Accounting Bodies established the Auditing Practices Board with a balanced membership of auditors, directors, shareholders and users of financial information. The Board set as its goals to develop the auditing practice in the United Kingdom and the Republic of Ireland so as to establish high standards of auditing, meet the developing needs of users of financial information and ensure public confidence in the auditing process. Its proposal to redefine the audit (in Accountancy, January 1993:88-94) is intentioned to be seen not merely as adding credibility to a company's financial statements but rather a check and balance on the proper conduct of enterprise in the public interest. Its perception was that auditors have yielded to pressure by directors and have been less than robust in standing up to them on matters of significance arising from the audit. The Board's impression, was that excessive competition combined with directors' desire to reduce audit costs may have lowered the quality and rigour of audits to unacceptable levels.

The Board proposed the adoption of a method involving shareholders in a direct way such as a legislation requiring the appointment of a body to represent shareholders' interests in the audit for all listed and public interest companies. The Board believed that the existence of such representatives would provide a means

of resolving most problems concerning auditor independence.

In 1990, the Institute of Chartered Accountants of Scotland (ICAS) together with the Institute of Chartered Accountants in England and Wales, as well as the Bank of England and the London Stock Exchange, established a committee to review the financial aspects of corporate governance. The Corporate Governance Report, known as the Cadbury Report, after the committee's chair, was published in December 1992. One of the recommendations was that an audit committee of independent directors should appoint the independent auditor and assess the audit fee (Percy 1995). This seems to be in line with the recommendation of the Auditing Practices Board.

2. 3. 1. The audit expectations gap in relation to municipality internal auditing in Israel

The audit expectations gap was analysed above in terms of audit assurance, audit reporting and audit independence. From the municipality internal auditors' perspective there is not much to say on audit assurance and audit reporting. They are not requested to present in their reports any assurance on the internal control system in the municipality or on any other topic. On the contrary, they point out deficiencies in the municipality, as found during their audit. As for audit reporting, the clarity of municipality internal auditing

reports is not seen as a problem. In fact, a typical report is written in language understood by all. The core issue in the audit expectations debate is instead audit independence, particularly - as will be argued below - for the municipality internal auditor.

If one assumes that the only ways to increase the independence of auditors are to reduce the auditor's interest in the 'client' or to reduce the powers of the 'client' to sack the auditor, then the municipality internal auditor's independence must really be doubted. On one hand, the municipality internal auditor has by definition one client: the municipality internal auditor has by law a full-time position in the municipality. On the other hand, the municipality appoints, again by law, the municipality internal auditor.

Yet the Standards of Conduct are unequivocal on the subject: internal auditors are to confirm with high standards of honesty. One may hope that municipality internal auditors believe that honesty is obligatory, whatever the consequences. Even so, some changes in the operation of the municipality internal auditing are needed. Recommendations concerning that topic are presented in chapter ten, 'Research conclusions and recommendations'.

2. 3. 2. Perceptions of internal audit in the public service in England

The environment in which public service bodies are now operating is changing due to increased public scrutiny. This creates the basis for internal audit to deliver services that both protect the organisation from scandals and failures and help it to achieve value for money.

CIPFA's Audit Panel, was aware of an audit quality expectations gap between auditors and the customers of audit services. The panel, therefore, commissioned Bob Hopkins from the Liverpool Business School at Liverpool John Moores University to undertake a national survey to look at this expectations gap in more detail.

The report, published in April 1997, provides the key results of this survey of almost 140 organisations and 800 individuals from all parts of the public services; The large majority come from the local government and health sectors. The findings of the survey confirm the existence of the quality expectations gap in relation to internal auditing.

The survey makes clear that in a number of areas, auditors and auditees have very different perceptions of the meaning and 'quality value' of key auditing concepts. The auditees included chief financial officers, financial managers, non-financial managers,

elected members and non-executive directors. Significant differences of opinion were found among the groups as to what the primary role of internal audit actually is. Auditors see their role as adding value to an organisation through offering appraisal and advice on internal systems, backed up by wider business skills. However, the auditees, particularly non-financial managers, still primarily associate internal audit with finding errors and preventing and detecting fraud. This leads to a feeling that the audit process is a kind of personal integrity assessment, a view strongly rejected by auditors themselves.

The survey uncovered a stronger desire among auditees than among auditors for greater involvement and consultations at all stages of the auditing process. This difference is caused, as explained, by fears of loss of independence among auditors.

There was a consensus among the study groups on the personal attributes required in a good auditor: integrity, objectivity and independence. All agreed that auditors should provide a service to management, make recommendations and offer advice. Age, management level, competitive tendering and the method of audit provision all proved to have an influence on the expectations gap. Older managers tended to attach more importance to the probity role of audit (which is seen as the historical view) than younger ones. The findings

for auditors and auditees involved in competitive tendering show that both groups see the need to establish closer relationships with each other and are moving away from the historical view of audit.

The report points out two major obstacles to improving the image of internal auditing within an organisation:

- (1) Internal auditors do not understand the perceptions of their customers.
- (2) Customers do not understand the modern role and objectives of internal audit.

To survive and prosper, internal audit will need, according to the report, to target its key customers, bridge the expectations gap and establish itself at the heart of the organisation as a facilitator of change and a marketer of imaginative solutions. The report proposes a new role for internal audit, with the traditional focus on compliance with internal controls being superseded by an emphasis on identifying, measuring and controlling weaknesses in organisational effectiveness.

In the present research, no real differences were found among the different users regarding the components of internal auditing effectiveness; Differences among the users were found in the evaluation of the effectiveness in respect to the different components.

In other words, the gap was found not in the perception of what auditors and auditees regard as key auditing concepts, as was found in the CIPFA's survey, but in their respective perceived evaluation. The gap in the case of internal auditing in municipalities in Israel was focused on the ability of the internal audit to bring change, which the present author translated as the perceived 'power' of the internal audit in the organisation.

One of the main findings of the CIPFA's survey was that auditors and auditees involved in competitive tendering establish closer relationships with each other and are moving away from the historical view of audit. The situation of competitive tendering does not exist for internal auditing in municipalities in Israel and by law it is an in house service. The present author wonders whether, in a public service body, the internal audit should be allowed to comply to the expectations of the auditees in order to get the job or should it follow rules formulated by relevant national organisations as to what internal audit units are expected to do.

Though the results of the CIPFA's report are very interesting, they are relevant for the English public service bodies and cannot be applied to the Israeli scene. The main conclusion is that when a gap is found between auditors -- internal or external -- and users of their service, it is very important to bridge the gap by

continuous education of the different parties in order to clarify what can be expected of the internal auditing services, re-examination of the content of the services periodically and adjustment to the dynamic changes of the environment.

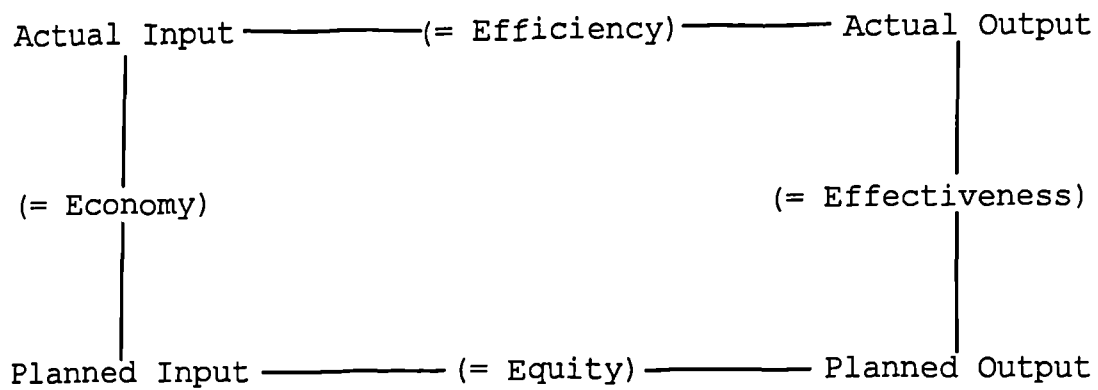
2. 4. Internal Auditing – Characteristics

2. 4. 1. Introduction

Modern internal auditing considers its scope of work to include all aspects of procedures in the organisations - be it technical, accounting, financial or administrative - in relation to all operations. The appraisal of the suitability of the procedures is performed from the perspectives of economy, efficiency and effectiveness - known as the "3 Es". Chambers & Selim & Vinten (1987:80) suggest a fourth "E" for equity (see Figure 2.2).

The "4 Es" are linked together but effectiveness is the most important. As Price Waterhouse (1990:68) put it: "there is absolutely no point in an organisation doing the wrong things well".

In order to evaluate the effectiveness of municipality internal auditing, as perceived by the different respondents in this study, one must first devise a model that identifies characteristics of internal auditing.



Effectiveness: A measure of actual performance against planned performance ("doing the right things" - achieving objectives)

Efficiency: The ratio of resource consumption to benefits produced ("doing things the right way" - like a well oiled machine)

Economy: The resources consumed vis a vis planned consumption ("doing things cheap")

Equity: The net effect of the enterprise upon society and the environment. ("doing right")

Figure 2.2 The meaning of the "4 Es"

source: Chambers & Selim & Vinten (1987:83)

2.4.2. Standards for the Professional Practice of
Internal Auditing ("the Standards"):
The Institute of Internal Auditors (I.I.A.)

The I.I.A., founded in 1941, is the only international organisation dedicated solely to the advancement of internal auditing. In Chambers' words (1992:19-20), the I.I.A. "is fortunate" to have this unambiguous mission.

The term "Standards" as explained in the foreword of the document means the criteria by which the operations of an internal auditing department are evaluated. Those "Standards" - issued in 1978 - are meant to serve all internal auditing units, in any organisation where internal auditors are found. In other words, the Standards are meant to establish the basis for evaluating the effectiveness of internal auditing.

Schneider (1982) and Farbo (1985), in their studies in internal auditing, have used models based on competence, objectivity and scope of work to describe the internal auditing function. Travers (1991) has used the criteria based on professionalism, objectivity, scope, independence, performance and audit management. Chapman (1982) based the criteria for his study on that part of the Standards which concerns the scope of work.

The I.I.A.(Israel) is a national institute within the I.I.A. It is important to point out that the I.I.A. (Israel) is mentioned in the Internal Auditing Act, which

was passed in the Knesset in February 1992. It is known as the professional body of internal auditing in Israel. This law does not affect the municipality internal auditors directly, since they already had a legal framework under the amended Municipal Ordinance. Still, the law enhances the importance of internal auditing in Israel and of the I.I.A.

Most internal auditors in Israel, including those in the municipalities, are members of I.I.A. (Israel). It is therefore a logical outcome that the Standards be used as benchmarks to find out about the evaluations of effectiveness of the municipality internal auditing units studied in this research. The model used will be the model presented in the Standards, tailored and adapted to the purpose of this study.

The Standards encompass:

- (1) The independence of the internal auditing department from the activities audited, and the objectivity of internal auditors (Organisational status; Objectivity).
- (2) The proficiency of internal auditors and the professional care they should exercise. Instead of entering into the question of whether internal auditing is a profession or not, which is not in the scope of this study, the present author prefers to use the term competence.

(3) The scope of internal auditing work.

(4) The performance of internal auditing assignments.

(5) The management of the internal auditing department.

2.4.3. A Theoretical Evaluation and Adaptation of the Different Standards for this Study

2.4.3.1. Independence

2.4.3.1.1. Organisational status

The position of the municipality internal auditor is clear and identical for all Israeli municipalities.

By law, auditees from all management levels, including the mayor and the councillors, have to co-operate if requested with the municipality internal auditor. The municipality internal auditor is appointed by the council.

The municipality internal auditor cannot lightly be dismissed or suspended. He must first be given the right to speak in a council meeting regarding the matter of dismissal or suspension. The councillors must be told beforehand that this item will be on the agenda. Dismissal must be approved in the council by a majority of 2/3 of its councillors.

The purpose, authority and responsibility of the internal auditing department is defined in the amended Municipal Ordinance. It includes access to records, personnel and

assets and defines the scope of internal auditing activities.

By law, the municipality internal auditors prepare and submit to the mayor an annual financial budget proposal for their departments, including staffing plans. The finance committee and the council discuss the budget and the staffing plans, as presented by the municipality internal auditors, in the framework of the discussion of the annual budget proposal.

As required by the amended Municipal Ordinance, the municipality internal auditors report to the mayor and to the audit committee. They are the head of a separate unit in the municipality (see Figure 2.1) and enjoy high status within the municipality.

2.4.3.1.2. Objectivity

All the books on internal auditing stress the importance of the independence of the internal audit. Woolf (1983) put it clearly that auditors who have lost their independence have lost their *raison d'être*; they have become dependent, and a dependent auditor is a contradiction in terms.

Independence is always relative, since there is no absolute independence. Independence is rather a state of mind that should ensure the objectivity of the audit.

In his model of internal audit independence, Rittenberg (1977) came to the conclusion that organisational aspects,

especially top management support, have a much greater influence on internal audit independence than individual factors (personal character and technical competence) have. Many articles (Reinstein & Gabhart, 1987; Penno, 1990 and others), have emphasised that the internal auditing unit should report to the higher levels of the organisation or at least have access to them.

The support of management is essential. Accordingly, the director of internal audit should have direct access to and freedom to report to all senior management including the chief executive, board of directors and, where one exists, the audit committee.

Chambers (1992:12) points out that "for adequate independence to be achieved it must be tailored appropriately to the character of the particular enterprise". He is not in favour of a situation where the internal auditing unit would "report administratively or functionally to an executive or director who also has functional responsibility for operations which may be within the scope of the internal audit".

To illustrate his point, Chambers (1992:13) argues that from the perspective of the external auditor there would be less scope to rely upon the work of an internal auditing unit which was closely linked to the accounting and financial processes of the business. The external auditor would question the objectivity of such an internal audit function. Looking at the same question from a

different angle, Collins & Vallin (1974) advocate that in order to implement changes, it is best for the internal auditing unit to report to a specialised management unit (administrative - finance). Earlier in this chapter, an evaluation in theory was offered of the power of the internal auditing unit in the Israeli municipality. The degree of power was found to be relatively low, in the context of the other departments in the municipality. In Israeli municipalities, internal auditing is performed by an independent department. A low degree of power suggests that an independent internal auditing unit may have problems in implementing changes and correcting deficiencies.

The criteria for audit independence are based on the section entitled "Independence: Organisational status and objectivity" from the Standards, adapted to the specifications of municipality internal auditing in Israel.

According to the law, municipality internal auditors in Israel are not allowed any operational responsibility. To stress that point, it used to be a requirement of the Ordinance, till 1995, that if the population was less than 30,000, the municipality could appoint a part time municipality internal auditor only under two conditions:

- (1) The internal auditor's job had to be at least a 50% part time job.

(2) Any additional position taken must also be in internal auditing in another municipality.

An episode in the municipality of Tiberias is worth mentioning here. The municipality was about to appoint the former chief financial officer as the new municipality internal auditor. Three councillors from Tiberias appealed to the court, stating that it was a conflict of interest. They declared that they had nothing against the person himself. However, as the municipality internal auditor he could not be in charge of auditing his own former job. The Supreme Court impeached the appointment and before the end of the juridical procedure, the council decided to cancel the appointment (Globes 17.8.94:10).

It is probable that the Court agreed with the words of the Standards, that "objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility."

The following list represents criteria from the "independence" section in the Standards that are relevant to the "independence" section of the model in the present study:

- Maintaining an independent mental attitude in performing audits.
- Avoiding potential or actual conflicts of interest or bias in audit staff assignment.

2.4.3.2. Competence

As explained in section 2.3.2(2), the term used in this study is competence rather than professional proficiency.

In order to be successful, the internal auditing unit must not only possess the required qualifications but must also be seen by others to possess them. Basically, this necessitates the technical proficiency and educational background which will enable the internal audit personnel to conduct the audit properly. The internal auditing staff should collectively possess the required proficiency in applying internal auditing standards, procedures and techniques and maintain their technical competence through continuing education.

The internal auditing staff should be well versed in human relations so that satisfactory relationships with auditees can be maintained. Communication is critical. Therefore, the internal audit staff should possess oral and written skills to be able to pass on their audit work. The latter includes objectives, evaluations, conclusions and recommendations.

In the Municipal Ordinance, there are no professional background requirements as to the municipality internal auditors or their staff. In Israeli municipalities, municipality internal auditors come from different backgrounds. Some have a law studies background, some

come from finance or accounting, others from administration studies.

According to the Internal Auditing Act (1992), internal auditors will not be appointed to a public body unless they have the following requirements:

- (1) They must be individuals, rather than firms.
- (2) They must be Israeli citizens
- (3) They may not have been convicted in court of any
flagrant offence.
- (4) They must hold a graduate degree, or be qualified as a
lawyer or certified public accountant.
- (5) They must have at least two years of experience in
internal auditing, or have participated in a
professional internal auditing training program
approved by the Committee for the Training Program.
The Committee is defined by the law and chaired by the
delegate of the I.I.A. (Israel).

The law has also designated a special committee to assess the appointment of internal auditors in public bodies that do not fulfil all the requirements previously mentioned. The committee is composed of the general director of the Ministry of Justice (chairperson), the Civil Service Commissioner, the Commissioner's deputy, the president of I.I.A. (Israel), the president of the Lawyers Institute and the president of the CPA Institute.

2.4.3.3. Scope of Work

Quoting from the Standards: "The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities."

The internal audit may be restricted by the terms of reference to conduct reviews only in certain sections of the organisation. The limits may be defined in terms of level in the organisation, usually not above the director of the internal audit's own organisational level. (This may be a warning signal that the expectations that others have of the Israeli municipality auditors are unrealistic, since they are expected to audit above their level. The question will be followed up in the empirical survey.) Sometimes, the limit is instead defined in terms of certain operations such as accounting and finance. Still, even within the restricted scope, the internal auditing unit should be concerned with all functions of management (planning, organising, staffing, directing, controlling and co-ordinating).

Chambers (1992:12) mentions that the audit scope should be tailored according to the internal auditing unit's resources. If it is too broad, it may jeopardise audit independence - though, as he continues, "restrictions upon the scope of internal audit may also of themselves impair audit independence".

In the opinion of the present author, it is preferable not to impose any external limit on the scope of the audit. However, the annual framework of the internal auditing unit should take into consideration the volume of work feasible subject to the unit's limited resources.

The criteria for "scope of work" in the model used in the present study are identical with the criteria of the Standards for "scope of work". They encompass:

- (1) the reliability and integrity of information
- (2) compliance with policies, plans, procedures, laws and regulations
- (3) the safeguarding of assets
- (4) the economical and efficient use of resources
- (5) the accomplishment of established objectives and goals for operations or programs

The criteria converge with what is expected from the municipality internal auditing unit's scope of work.

2.4.3.4. Performance

The criteria for "performance" in the model for this study adhere to the criteria in the "performance" section of the Standards.

Quoting from the Standards: "Audit work should include planning the audit, examining and evaluating information, communicating results and following up."

2.4.3.5. Management of the internal auditing department

The criteria in the Standards include:

- (1) Purpose, Authority and Responsibility - The Ordinance gives a general framework. Even so, it might be useful if in every municipality there was a charter for the internal auditing department, approved by the mayor and accepted by the council. However, that is not the case.
- (2) Planning - The municipality internal auditor is required, by law, to prepare an annual plan to decide what items to audit and what the scope of the audit should be.
- (3) Policies and Procedures - Even in big cities, the municipality internal auditing unit is a small department. The municipality internal auditors direct and control the different audits on a frequent basis. They sign every report presented by the internal auditing department.
- (4) Personnel Management and Development - In the public sector in Israel, including municipalities, there is a trend to look very favourably at training courses. Of course, the situation may vary from municipality to municipality.
- (5) External auditors - In Israeli municipalities, as explained previously, there are different external

auditors: The State Comptroller's Office, the external CPAs reviewing the accounts, the unit in the Ministry of the Interior auditing local authorities. There is sometimes a problem of co-ordination between these parties. When starting an audit, those parties would generally be in touch first with the municipality internal auditor. They verify whether the municipality internal auditor's existing reports and other work may be useful for them.

Many years ago, the State Comptroller of Israel, reported more than one case in which he was not satisfied by the quality of work performed by the internal auditing unit in municipalities. Nowadays it seems that far better qualified personnel are hired for internal auditing in municipalities and no such official remark has been heard for at least fifteen years.

(6) Quality Assurance - There is no knowledge of regular internal or external reviews, as mentioned in the Standards, in the Israeli municipality internal auditing.

To summarise, the model used in this study to evaluate the effectiveness of internal auditing in Israeli municipalities is based on the five main components described in the Standards. The model takes into account:

- (1) Independence
- (2) Competence
- (3) Scope of work
- (4) Performance
- (5) Management of internal auditing department

2.5. Hypotheses

To direct the collection and analysis of the data, the following hypotheses were established.

All hypotheses refer to Israeli municipalities.

2.5.1. Hypotheses concerning the independence of the municipality internal auditing unit

2.5.1.1. Hypothesis one:

"The respondents from the municipality internal auditing unit have a higher evaluation of the independence of the municipality internal auditing unit than the other respondent groups have."

2.5.1.2. Hypothesis two:

"The respondent groups outside the municipality have a lower evaluation of the independence of the municipality internal auditing unit than the respondent groups within the municipality."

2.5.1.3. Hypothesis three:

"There is a difference in the evaluation of the independence of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

2.5.2. Hypothesis concerning the competence of the municipality internal auditing unit

2.5.2.1. Hypothesis four:

"The respondents from the municipality internal auditing unit have a higher evaluation of the competence of the municipality internal auditing unit than the other respondent groups have."

2.5.2.2. Hypothesis five:

"The respondent groups outside the municipality have a lower evaluation of the competence of the municipality internal auditing unit than the respondent groups within the municipality."

2.5.2.3. Hypothesis six:

"There is a difference in the evaluation of the competence of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

2.5.3. Hypotheses concerning the scope of work of
the municipality internal auditing unit

2.5.3.1. Hypothesis seven:

"The respondents from the municipality internal auditing unit have a higher evaluation of the scope of work of the municipality internal auditing unit than the other respondent groups have."

2.5.3.2. Hypothesis eight:

"The respondent groups outside the municipality have a lower evaluation of the scope of work of the municipality internal auditing unit than the respondent groups within the municipality."

2.5.3.3. Hypothesis nine:

"There is a difference in the evaluation of the scope of work of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

2.5.4. Hypotheses concerning the performance of the
municipality internal auditing unit

2.5.4.1. Hypothesis ten:

"The respondents from the municipality internal auditing unit have a higher evaluation of the performance of the

municipality internal auditing unit than the other respondent groups have."

2.5.4.2. Hypothesis eleven:

"The respondent groups outside the municipality have a lower evaluation of the performance of the municipality internal auditing unit than the respondent groups within the municipality."

2.5.4.3. Hypothesis twelve:

"There is a difference in the evaluation of the performance of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

2.5.5. Hypotheses concerning the management of the municipality internal auditing unit

2.5.5.1. Hypothesis thirteen:

"The respondents from the municipality internal auditing unit have a higher evaluation of the management of the municipality internal auditing unit than the other respondent groups have."

2.5.5.2. Hypothesis fourteen:

"The respondent groups outside the municipality have a lower evaluation of the management of the municipality internal auditing unit than the other respondent groups."

2.5.5.3. Hypothesis fifteen:

"There is a difference in the evaluation of the management of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

PART TWO
SURVEY DESIGN AND METHODOLOGY

Chapter three
The research methodology

3.0.Introduction

The objective of the present study is to evaluate the effectiveness of internal auditing in municipalities in Israel. This involves testing of hypotheses in order to be able to suggest policy recommendations. The hypothesis testing is best conducted within the framework of a model representation of reality. The model, described in the previous chapter, makes it possible to evaluate the effectiveness of internal auditing in municipalities in Israel. It is based on five components: independence, competence, scope of work, performance, and management, all relating to the internal auditing unit (Figure 3.1)

This model was presented in interviews with representatives of the different respondent groups. They were asked to comment on whether any component or criterion was missing from the model, or if any component or criterion should be removed from the model (the interview process is described in chapter 4 of this study).

Effectiveness

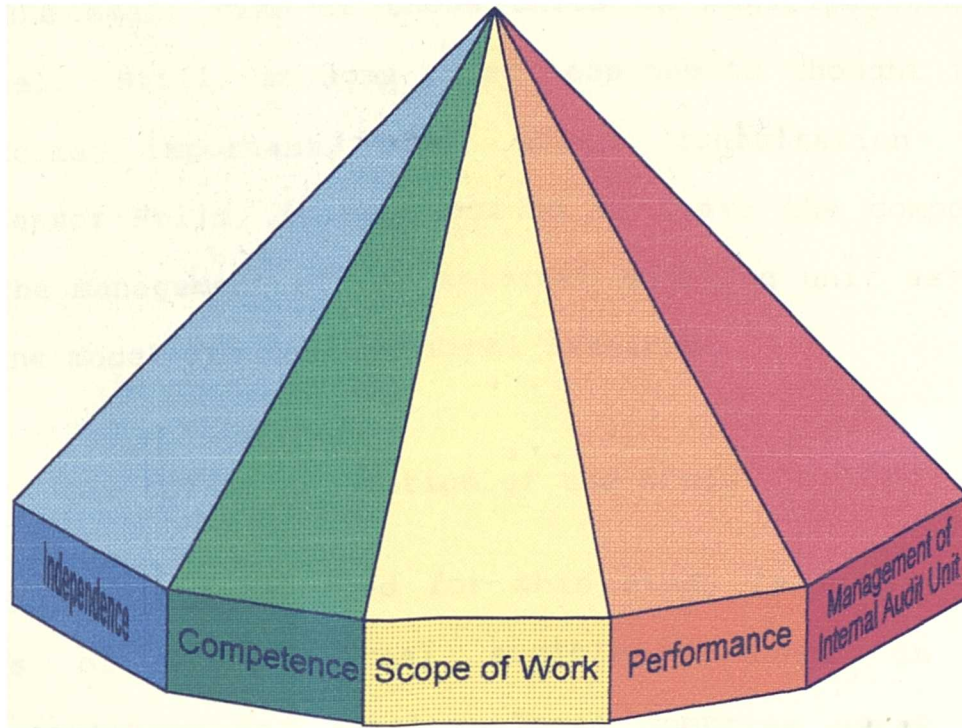


Figure 3.1: Components of the effectiveness of municipality internal auditing - Model I

The model was accepted with minor changes. There were respondents that thought that some criteria were not needed, mainly criteria under the heading of management of the internal auditing unit. The reason was because of the small size of those units in municipalities in Israel. Still, as some other respondents thought these criteria important, and after consultation with Professor Selim, it was decided to leave the component of the management of the internal auditing unit as part of the model for the empirical research.

3.1. The target population of the study

The population selected for this study is composed of users of the internal auditing product in the municipalities in Israel. These comprise users both within the municipality and outside of it.

The users consulted within the municipality include: the mayor, the council including the audit committee, the general director, three important departments - the finance, education and engineering - representing the different types of departments (service, line and technical) within the municipality, and the internal auditing unit itself.

Three different levels of management - councillors, chief officers and middle level management - are identified with the targeted population. This is to

verify, whether the management level of the auditees influences their perception of the internal auditing effectiveness in municipalities in Israel.

The users outside the municipality include: the Comptroller's Office (the section in charge of the local authorities), the Ministry of the Interior (the department for auditing the local authorities and the CPA of the municipalities), and the public as represented by journalists of local newspapers covering municipality affairs.

All the municipalities in Israel are by law required to have a municipality internal auditor. There are more than 50 municipalities, but the number is increased from time to time, when the status of a local authority is changed to that of a municipality. Municipalities having municipality internal auditing units comprise the scope of the research.

3.2. The approach

The different hypotheses of this study compare the evaluation of the five different components of the model by different groups of respondents within the municipality and outside the municipality. Depending whether the data analysis confirm the different hypotheses or not, it will be possible to assess whether different respondent groups have different perceptions

of the various components which together comprise the effectiveness of the municipality internal auditing unit.

Analysis of the different components according to the different respondent groups should be very instructive in the study of each group's perception of the components. It could also point out weaknesses in the internal auditing process.

In order to gather the data and test the hypotheses, a method of collecting the data had to be chosen.

3.3. Range of data collection tools

The data needed for testing the hypotheses of this work had to be collected by the researcher through a survey covering the different groups of users of the municipality internal auditing product. The processing of survey data through advanced analytical methods has become one of the foremost means of social investigation. On the most basic level, the idea of a survey begins with the desire to measure some characteristic of a population. A survey can be useful for describing populations as well as for building models for analysis. In fact, the data gathered through a survey are often put to both descriptive and analytic uses. A government survey, for example, can tell us the total number of adults who were unemployed last month.

These same data are used by sociologists, economists and others with interests quite different from obtaining those simple point estimates.

In data collection, two main concerns are to select an interview method appropriate to the questions that will be asked, and to obtain co-operation from as many respondents as possible. Typically, there are three survey approaches: mail (self-administered), telephone and face-to-face (personal interviewing).

There is no one best survey method: each has strengths and weaknesses. It is important to know what these are and to evaluate research objectives with reference to the advantages and disadvantages of each method. In addition, there are administrative factors (geographic distribution of population, cost, length of data collection period) that must be taken into account in choosing the method of data collection.

Based on Fowler (1993) and Czaja & Blair (1996), a list of different methods of data collection follows:

Personal interviewing

Advantages:

- Most effective in enlisting co-operation for most populations.
- Advantages of interviewer administration (e.g. possibility of interacting with respondent).

- Multi-method data collection, including facilities for observations, visual cues and self-administered sections.

Disadvantages:

- Hesitancy of respondents to report sensitive issues.
- More likely to yield socially desirable responses.
- More costly than the alternatives (travel and travel time costs to meet respondents in their home)
- A trained staff of interviewers that is geographically near the sample is needed.

Telephone interviewing

Advantages:

- Lower cost than personal interviews
- Random-digit-dialling sampling of general populations
- Better access to certain populations, especially as compared to personal interviews. - Likely better response rate from a list sample than in mail surveys.
- In comparison to personal interviewing, smaller staff of interviewers is needed, without any requirement to be geographically near the sample.
- Shorter data collection periods.
- Advantages of interviewer administration, in contrast to mail surveys.

Disadvantages:

- Less appropriate for sensitive questions, if no prior contact.
- Non response associated with random-digit-dialling sampling is higher than personal interviews.
- Measurement restraints, including limits on response alternatives, on use of visual aids and on interviewer observations.

Mail survey

Advantages:

- Successful in the collection of data about sensitive topics, since the respondent does not have to share answers with an interviewer.
- Questions can be asked with complex response categories.
- Batteries of similar questions can be asked.
- Provides access to widely dispersed samples and samples that for other reasons are difficult to reach by telephone or in person.
- Relatively low cost.
- Can be accomplished with minimal staff and facilities.
- Respondents can choose when to answer, at their own convenience.

Disadvantages:

- Especially careful questionnaire design is needed.
- Open questions usually are not useful.
- Good reading skills by respondents are needed.
- Lower rate of responses.

3.4. Choosing a method for the present research

The purpose of the empirical survey was to collect data, related to the evaluation of the effectiveness of internal auditing in municipalities, from different respondent groups.

The targeted populations, which included internal and external users, professionals and councilors, may be characterised as follows:

- (1)They are well educated; therefore no problems in reading or writing skills were expected.
- (2)They are very busy. The councilors in Israel are not paid for their work in the municipality and also have their own careers. Therefore, between those obligations, they are pressed for time.

The professionals, both within and external to the municipality are under a lot of pressure and will not allocate much time to an academic research.

(3) They are scattered geographically all over the country, since the research covered all Israeli municipalities.

The author believes that the geopolitical situation of Israel in the Middle East vis a vis its neighbours and an history of persecution have moulded most Israelis to be quite suspicious by nature.

It seems that when the literature mentioned that in order to collect sensitive data, one has to use non-personal methods, it is very true for the Israeli scene.

Relating to the local government in Israel, which is the area where this research took place, it is important to bear in mind that the different local authorities have been criticised harshly by the central government and others for the large deficits in their budget. Any research aiming at any operation of the local government will have to overcome the given general suspicious nature, as explained above and in addition a certain antagonism from respondents from within the local government towards an external researcher.

The logical outcome leads to the conclusion that even before touching the issue, the threshold of what is perceived by the respondents in local authorities as sensitive is quite low.

As the topic itself was perceived as sensitive, honest answers could not be obtained without an anonymous method of data collecting. This was made clear from the very first stages of the research, either by the different users the researcher met or by people that approached Dr. Rozevitch, knowing he was the external supervisor.

Comparing those requirements and the different survey approaches limited the possibilities:

(1) Personal interviewing was not possible because it would have been too difficult to meet with each respondent, not only because of their busy schedule but also because of their geographical dispersion. In addition, as Czaja & Blair (1996:47) point out, the more personal the method of data collection, the less likely respondents are to collaborate on sensitive topics. This is equally true for Israel. People will collaborate on sensitive issues and give honest answers only if they are assured that the collection of the data is genuinely anonymous, meaning that the researcher is not able to make connections between individual respondents and their responses.

(2) Telephone interviewing was also not possible because of the difficulty in reaching the respondents before being screened and stopped by a secretary. Even if this obstacle is overcome, it is quite probable that

the respondent would be in the middle of some other work and not co-operate with the interviewer. In addition, this method could hardly be called anonymous. Therefore it was not appropriate for the purpose of this survey.

- (3) The remaining alternative was a mail survey. These are of two types: some form of group administration may be provided, or the survey may be wholly self-administered. Group administration was not possible in this research because it was not possible to bring together respondents in groups. Even the minimal administration of dropping off (and later picking up) questionnaires at offices was not acceptable, as it would compromise anonymity. Consequently, a wholly self-administered mail survey was seen as the most appropriate method for this research.

Mail (self-administered) surveys have been successful in the collection of data about sensitive topics (Czaja & Blair 1996:35 and Fowler 1993:58). This method also suits the situation of the scattered populations of this research. The main disadvantage was that this method is known to yield a lower rate of responses. In this case, since there was no other possible way to perform the survey, that was a price to be paid. A carefully designed, very clear and understandable questionnaire may facilitate the participation of every willing

respondent. The researcher, as explained in chapter five 'Questionnaire development' and in chapter six 'Respondents', did everything possible, such as careful questionnaire design and follow-up, to minimise the problem.

The questionnaire is based on the criteria developed in this model and grouped according to the five different components.

The questionnaire appears in this study both in English and in Hebrew (see Appendices H and I). Since the survey took place in Israel and all respondents are Hebrew speakers, only the Hebrew version was used. The self administered questionnaire was sent by mail to the respondents (see also chapter 5 on the questionnaire).

3.5. Collecting the data

The respondents were asked to send back the questionnaire using the collect paid envelope provided with the questionnaire package. One standard questionnaire was used for all respondents. The first section of the questionnaire requested demographic data (mainly from municipality internal auditors) and information about the respondents to associate them with the appropriate group of users. The second section was composed of five parts. Each part represented a different component of the model presented in this study. The questions in the second section were in fact

based on actual statements. The respondents had to tick how strongly they agree/disagree on a six level scale with each statement. The even number of options was chosen in order to avoid fence- sitting. In addition to the individual boxes for the six level scale, there was an additional box that the respondents could tick when the information regarding a statement was not available to them or they did not know the answer.

The answers to the questionnaire created the data for the research. For each respondent, in each targeted group, there was a set of answers related to the different criteria of each component of the model. As Peacock & Pelfrey (1991) suggested, the Likert type scales - as used in this study - provided a mechanism for quantifying responses. In the absence of any contrary indication, the same weight was given to each question in each component and to each respondent.

3.6. The testing of the hypotheses

The research aimed to investigate the relationships between the different components of internal auditing effectiveness among different groups of users. For every component, an array of figures was produced, which represented the responses of the different subjects. From these arrays, correlation coefficients and multiple regression analysis were calculated to allow the

relationships among selected respondent groups to be investigated.

Keppel & Zedek (1989:550) recommend the MRC - Multiple regression and correlation - techniques for the analysis of non-experimental designs and correlation data.

The most accessible procedures for performing correlation and regression calculations are based on Pearson's approach. This also supplies significance tests that are readily applicable.

Pearson's approach assumes that the data follow an interval scale. In fact, however, the data are based on Likert type scale responses, of which the following is typical:

"completely disagree - strongly disagree - disagree - agree - strongly agree - completely agree".

These responses cannot be measured externally. On that ground, the premise that they follow an interval scale could be challenged. If the Pearson-type methods were not used, the analysis would have to be performed, instead, on the basis of non-parametric methods, i.e. methods that do not assume the data to follow an interval scale. These methods involve more sophisticated and cumbersome analysis, especially for significance testing.

Any objection to the use of Pearson-type statistics to analyse the present data can be countered by two

arguments. First, a good case can be made out for the view that the data indeed follow an interval scale, even though no external measurement is possible. Weisberg & Bowen (1977:50) maintain that in non-metric psychological research, people can distinguish up to seven different degrees reliably. In this research, the six alternative responses may well be perceived in the respondent's mind as equally spaced out. There are certainly many precedents for the application of Pearson-type coefficients to data that is not externally tangible, such as marks in intelligence tests or college examinations. Kerlinger (1986:403) points out that "most psychological and educational scales approximate interval equality fairly well".

Second, experience shows that the results obtained from the special non-parametric methods do not as a rule differ greatly, in numerical terms, from those obtained by the methods that assume an interval scale. For example, if from the same data one calculates both the Pearson correlation coefficient (which assumes an interval scale) and the Spearman correlation coefficient (which makes no such assumption), the results in practice will almost always be very similar.

Consequently, the assumption of an interval scale was made. In this way, it was possible to apply the full range of Pearson-type correlation and regression methods to the analysis of the data.

In addition, after collection of the data, the distribution of all components was analysed to find out whether it was a normal distribution. This was done by using kurtosis and skewness measures over all the components. For all the components, the data was found to be compatible with a normal distribution.

Chapter four

Criteria for evaluating the effectiveness of internal auditing in municipalities in Israel

4.0.Introduction

Since the intention of the study was to develop a practical model to evaluate the effectiveness of internal auditing in municipalities, it was necessary to consult in advance the people involved. To achieve this goal a two phase survey was adopted.

In the first phase, the author conducted meetings with prominent representatives of "users" involved in one way or the other with the internal auditing "product" in municipalities. The idea was to seek their views regarding the criteria and components important for the model.

The second phase, presented to a larger group the criteria and components that emerged from the first phase. This larger group was composed of representatives of the different groups of users of the internal auditing product in municipalities. They were asked to give their opinion on the existing criteria and components, and on whether others should be added.

4.1. First phase meetings

4.1.1. Introduction

The first phase meetings had to ascertain quickly and reliably whether the suggested model was on the right track, and how it might be refined.

The inner circle of users of internal auditing in municipalities comprises, without any doubt, the users inside the municipality. They are in charge of the ongoing business. They are the first to encounter the municipality internal auditing unit and they are supposed to correct whatever deficiencies are pointed out to them.

The author decided, on those grounds, to meet with a mayor, a general director, a chief financial officer and a municipality internal auditor - all prominent representatives.

In addition, in order to have the perspective of a prominent user outside the municipality, the author met with the director of the department in the Ministry of the Interior which audits local authorities.

There were various theoretical possibilities for conducting the meetings:

(1) by assembling the different representatives in one session

(2) by meeting them individually

(3) a combination of sessions for those who could attend and individual meetings for those who could not

Options (1) and (3) were not practicable, because of the difficulty in arranging for all or even most of those busy people to be available at the same time and place. As a matter of fact, there was a plan to meet in one session with the general director, the chief financial officer and the municipality internal auditor of a single relatively big municipality which has a reputation for good operation and management. Even that meeting was not held as expected. Instead, meetings were held sequentially. The reason may have been that the respondents preferred to speak to the author separately and therefore freely, though the reason given was a technical one.

The different individual meetings lasted between half an hour and more than two hours.

The meetings were held between January and March 1995 with:

- The mayor of a medium size municipality who represents the new generation of mayors that is taking over quite rapidly from the old guard.
- The general director of a relatively big municipality, on the verge of leaving his post, after many years in his present position. He moved to the job after being the chief financial officer of the municipality for

many years. Before that, he served as an executive at the Ministry of Finance in the central government.

- The municipality internal auditor of that same municipality, who was in post for more than seven years.
- The chief financial officer, also from that municipality, who came to the office three years before from the private sector. He had worked in the past as an internal auditor in the private sector.
- The director of the department auditing local authorities in the Ministry of the Interior. The department had played quite a minor role till the arrival of this new director, some two years earlier. Since then, the department has performed numerous audits in local authorities with its enlarged, but still small professional team, now comprising half-a-dozen personnel.

Demographic facts will be added further on, along with the comments of the representatives.

4.1.2. The approach used for these meetings

The same structured method was used with all respondents in order to avoid bias. At the beginning of each meeting the author explained that he hoped to have their opinion on what criteria and components should be part of a model to evaluate the effectiveness of the municipality internal

auditing unit. The author told them that they would be provided with a list of components divided into criteria (Appendix D). The list was based on the Standards of the Institute of the Internal Auditors (1978). The components in the list were supposed to give an indication of internal auditing effectiveness in general.

The respondents were requested to:

(1) Give their opinion whether each criterion and component in the list could and should be part of the model evaluating internal auditing effectiveness in municipalities in Israel. It was stressed that the evaluation was concerned with the municipality internal auditing unit as a whole, and not the individual internal auditor.

(2) If possible, specify which components/criteria were more important or not important.

(3) Add any other component/criterion that was missing from the list, which they felt was important to include in the model.

Each component was read aloud and the respondents gave their comments.

Table 4.1: Summing up first phase meetings

Components for evaluating the effectiveness of municipality internal auditing	Mayor	Municipality internal auditor	General director of municipality	Chief financial officer	Director of the department auditing local authorities - Ministry of the Interior
<u>Independence</u>					
- Organisational status	-	-	-	+	+
- Objectivity	+	+	+	+	+
<u>Competence</u>	+	+	+	+	+
<u>Scope of work</u>	+	+	+	+	+
<u>Performance</u>	+	+	+	+	+
<u>Management of the municipality internal auditing unit</u>	-	-	-	(did not comment)	+
					(- against coordination with external auditors.)
Comments:	1) The most crucial is to audit the economical and efficient use of resources. 2) Important to fix criteria for allocating budget and adequate personnel.	1) The fewer audits resulting from requests of councillors, the more independence there is. 2) Important to know what users think of topics included in annual plan. 3) Important to have adequate budget and personnel.	The most crucial is to audit the economical and efficient use of resources.	1) Challenge the whole existing system. 2) The most crucial function is to check the compliance with policies, plans, procedures, laws and regulations.	1) Must include in the scope of work, the checking of all participants in the municipal arena. 2) Important to audit the compliance with policies, plans, procedures, laws and regulations.

4.1.3. Meetings and opinions

4.1.3.1. Meeting with the mayor

The city with a population of 60,000 - is located in the centre of Israel. The population is young and mainly composed of white collar liberal professionals. It has no heavy industry, some hi-tech and many small businesses.

The mayor's comments:

(1) Regarding independence:

The organisational status of the internal auditing unit should not be a criterion because it is clearly defined by the Municipal Ordinance. The mayor believes that the existing high status of the municipality internal auditor enables the municipality internal auditing to operate satisfactorily. Much has to do with the municipality internal auditor's personality.

The mayor accepted the component of objectivity.

One of the dangers that the municipality internal auditor should avoid is to play into the hands of councillors from the opposition parties. They will try to use the internal auditing unit for their own political purposes to attack the mayor. The municipality internal auditor must be careful not to be misled by the opposition on the one hand and not to be perceived, on the other hand, as the mayor's man.

(1) Regarding competence:

The mayor accepted the list of criteria.

(2) Regarding scope of work:

The mayor accepted the list of criteria. At the same time, he considered that the greatest emphasis should be given to checking the economical and efficient use of resources in the municipality. According to the mayor, that is the area to which the internal auditing unit should devote most of its efforts.

(3) Regarding performance:

The mayor accepted the list. He believed that the follow-up factor was extremely important.

(4) Regarding management of the internal auditing department:

- a) The law already defines the goals, authority and responsibility of the internal auditing unit. There is therefore no need to have another charter dealing with the subject. Therefore there is no need for this criterion.
- b) The law requires a working plan, of which the mayor receives a copy. Therefore there is no need for this criterion.
- c) Policy and procedures: None of this is relevant in his specific municipality since there is only one internal auditor. It might be important in the

bigger municipalities where there are more auditors in the internal auditing department.

d) Management and training of personnel: Management is not appropriate in the case of that specific municipality as explained previously.

e) Co-ordination of internal and external auditing: This would have been important, but it is not applicable. It is not in the power of the municipality internal auditing unit to change the level of co-ordination.

f) Quality control: This sounds good, but does in fact not exist on a regular basis.

General comments by the mayor

The mayor believed that since the whole municipality is in fact operated by the mayor, the relationship between the mayor and the municipality internal auditor is critical for the good operation of the internal auditing unit.

It is obvious that the mayor, being a political figure, is eager to appear in public or in the media. Municipality internal auditors that are eager to attract the media to themselves and their own findings may jeopardise their relations with the mayor.

The municipality internal auditors, being internal, receive their salary from the municipality. Their situation is different from that of the external auditors, who spend one day inside the municipality and the day

after working elsewhere. The municipality internal auditors are there day after day with the same people. In order to succeed in their jobs, they must be impartial. Their organisational status is adequate and there is no need for any change.

In his municipality, the municipality internal auditor submits an interim report three or four times a year and obtains a response from the mayor and his team.

After each report, the mayor calls a meeting with the people involved. It is there that the mayor makes his decisions regarding the issues raised in the report.

In his published annual report, the municipality internal auditor will refer to those decisions and follow up whether they were implemented. The mayor gave much importance to the follow-up. The mayor explained that he conceives the task of the municipality internal auditor as constructive: to recommend ways of correcting defects, and ultimately to assist the mayor in the correct functioning of the municipality.

The mayor approved of the law that no restraint should be put on the scope of work of the municipality internal auditor.

In the mayor's opinion, many mayors reach their positions without any adequate background to assist them in standing at the top of an organisation of the size of a municipality. The mayor therefore, believed that the

municipality internal auditor should give greater emphasis to finance management. Any improvement in finance matters may save the municipality a great deal of money. Though the mayor in this case is himself a professional economist, he does not find the time nor the opportunity to check all financial matters.

Very seldom will the mayor ask the municipality internal auditor to check a certain subject. In general, the municipality internal auditor will himself pick the topics to be checked.

The mayor believed that there should be clear criteria for the number of staff and the budget allocated to the municipality internal auditing unit, in relation to the size of the municipality. The salary of the municipality internal auditor should also be clearly defined and not be decided by the municipality which employs the municipality internal auditor.

To conclude, independence (only objectivity), competence, scope of work and performance are all important as criteria for evaluating the effectiveness of municipality internal auditing. The management of the municipality internal auditing department is not relevant for small municipalities.

Meetings at the second municipality

The city concerned has a population of 120,000 and is located south of Tel Aviv. The city has heavy industry

plants, while also being very tourist-oriented with an adequate infrastructure. It has a very heterogeneous population.

Each meeting with the officials of the municipality took place separately.

4.1.3.2. Meeting with the municipality internal auditor

The municipality internal auditor's comments:

(1) Regarding independence:

- a) The organisational status of the municipality internal auditors is sufficient. They are among the top employees in the municipality. Their status enables them to have independence of mind. He did not think that organisational status should be part of the model as a criterion.
- b) Objectivity is an important criterion. He suggested to use as an (inverse) indicator the percentage of the total number of investigations made by the municipality internal auditing unit which follows requests made by others. Requests for an investigation are often politically motivated and the municipality internal auditor should not be an instrument in the hands of others. Hence, the smaller the percentage, the higher the independence of the internal auditing unit. Another aspect of objectivity is whether

the staff and budget are sufficient for the internal auditing unit to operate adequately.

(2) Regarding competence:

He agreed with the different criteria. It is important to meet at reasonably frequent intervals with the mayor. It is also important that in-depth meetings are held to discuss the recommendations included in the internal auditing report.

(3) Regarding scope of work:

He accepted the different criteria. There is a gap here between theory (in this case the law) and practice. The law prescribes a virtually unlimited scope of work including the mayor, the council and the top executives. In "real life", the municipality internal auditor had better not audit the mayor! He gave the example of a municipality internal auditor who was in conflict with the mayor and was continually asked to leave his office for another room due to "maintenance work". . .

There is a significant difference between the external auditors, such as the State Comptroller, and the internal auditor. The external auditors come for a relatively short time to the municipality, and do not depend on the municipality staff, executives or elected members, neither for the presentation of their reports, nor for their personal salaries.

(4) Regarding performance:

He accepted the different criteria. He believed that an important indicator is the pace at which the correction of deficiencies, recommended in the municipality internal auditing reports, is implemented.

(5) Regarding the management of the internal auditing unit:

- The purpose, authority and responsibility of the unit are clearly defined in the law for all municipalities. Consequently there is no need to include it as a criterion.
- A work plan is also required by law. The relevance of topics in the work plan influences the perceived effectiveness of the internal auditing unit. This is even more true if one bears in mind that the municipality internal auditor is mainly responsible for choosing the topics included in the plan.
- Most municipality internal auditing units are small. There is no need to have a criterion checking policy and procedures inside the unit.
- Training is important.
- Co-ordination does not depend on the internal auditing unit. This is because the external auditors do not seek co-ordination with the internal auditing unit. The external auditors are unwilling to divulge their working plan to the municipality internal auditors and

he has not been asked to present his plan to them. There ought to be co-ordination but in practice it does not exist. Therefore, co-ordination cannot be a component.

- Checks on the quality of work of the internal auditing unit by an external body do not exist formally. The State Comptroller does not generally perform such a check, unless it is the topic of the audit (This had not happened, at least not for as long as he had been in office.) In a way, the CPA firms employed by the Ministry of the Interior inquire into the quality of work of the internal auditing unit, but very superficially. As it is now, checks could not be a criterion. but if things change in the future, it should be.

4.1.3.3. Meeting with the general director

The general director's comments

(1) Regarding independence:

The organisational status of the municipality internal auditors is clearly defined by the law. This enables them to perform their job properly. He did not think it should be a criterion.

He believed that much has to do with the personality of the municipality internal auditor. The resources available, in staff and budget, are linked to the

auditor's willingness to fight for the place of the internal auditing unit in the municipality.

If the municipality internal auditors are not looking for sensation, but are task oriented, there is no reason why they should not audit the senior members of the municipality. In his view, the present situation already safeguards independence of mind.

He did not think that the municipality internal auditors could find themselves faced with a conflict of interest.

(2) Regarding competence: He accepted the criteria.

As for satisfactory relationships, he saw it more as the problem of the auditees. The greater the self confidence of the auditees, the less they will feel "threatened" by the internal auditing unit and the better they will understand that it is intended to *help them correct* deficiencies.

The recommendations for correcting the deficiencies form a very important part of the internal auditing unit's work.

(3) Regarding scope of work: He accepted the criteria.

The most important criterion, which is the heart of the audit, is the economical and efficient use of resources. In his view, internal auditors should put more emphasis in that direction, since only internal auditors will perform such a check. (That had also been the opinion of the mayor of the first municipality.)

(4) Regarding performance:

He accepted the criteria.

The right selection of topics in the plan is very important, because of limits on resources and the inability to include all possible topics.

The respondent, who was the general director, also commented on the follow-up regarding the correction of deficiencies mentioned in the municipality internal auditor's report. After the meetings with the mayor, where decisions are made, he, the general director, was expected to implement and follow up on the correction of deficiencies. He believed that the follow-up of the municipality internal auditing unit's recommendations was important.

(5) Regarding the management of the internal auditing unit:

It is not relevant in the case of municipalities because of the small size of the unit.

There are very seldom external auditors coming to the municipality because of "the good reputation" of the municipality.

4.1.3.4. Meeting with the chief financial officer

The chief financial officer's comments

(1) Regarding independence:

He accepted the criteria.

The present situation does not make true independence possible for the municipality internal auditor. The municipality internal auditors are in fact dependent on the mayor. In order for municipality internal auditors to be independent, there should be an external body that would assign them to particular municipalities. This body would decide the conditions of work, the staff and the budget needed to run the internal auditing unit in the municipality. It was recommended that criteria should be drawn up to determine what the staff and budget should be, according to the specifications of the municipality. Also, there should be rotation between municipality internal auditors, such that each municipality internal auditor stays in one municipality for (say) three years. He did not believe in the good operation of the audit committee since all the members are politicians (council members). Neither should one rely on council members from the opposition to keep a close eye on the ongoing operations, since the mayor can "buy" their agreement to certain measures. That is done by accepting to move forwards certain topics that are important for those council members' electorate. Therefore, only an independent municipality internal auditor would improve the standard of internal auditing in the municipality.

(2) Regarding competence:

He accepted the criteria.

It is important to test the ability of the municipality internal auditor to stand firm under pressure. Speaking of formal education, he would like to see a law school graduate or a certified public accountant, in that order of preference.

The municipality internal auditor should have the personality to initiate work. Otherwise, a dangerous situation could occur in which no internal auditing work is performed and everyone is satisfied.

(3) Regarding scope of work:

He accepted the criteria.

The internal auditing unit should allocate most of its efforts to compliance with policies, plans, procedures, laws and regulations. This criterion should be the most important for the internal auditing unit working within the municipality.

(4) Regarding performance:

He accepted the criteria.

The follow-up is important. The problem is that the departments in the municipality do not give enough importance to the municipality internal auditor's reports. This impression is reinforced if one compares their attitude towards the State Comptroller's reports.

The municipality internal auditor's reports are generally summarised in the local newspapers. However, people give less importance to local newspapers than to the national

newspapers, and tend to forget very soon what they have read. If the reports were published in the national newspapers, they would be viewed as more important, and the unit's recommendations would be likelier to be implemented.

(5) Regarding management of the municipality internal auditing unit:

He did not have anything to say about the criteria. Today, he said, there is no quality assurance, but that should change.

4.1.3.5. Meeting with the director of the department auditing local authorities in the Ministry of the Interior

The Ministry of the Interior is the link between the local authorities and the central government.

The department receives the annual reports from municipality internal auditors.

The director's comments:

1) Regarding independence:

He accepted the criteria.

The tendency today is to strengthen the municipality internal auditor's independence through changes in the Municipal Ordinance. The existing situation is problematic. For example, the mayors can prevent the municipality internal auditors from checking a particular

topic by instructing them to investigate some other specified topic. He believed that one important question in relation to independence was who appoints and dismisses the municipality internal auditor. The proposed changes include criteria for size of staff and budget necessary for the municipality internal auditing unit. The municipality internal auditor should have total independence to decide what topics to tackle. Internal auditors in municipalities are in a very special position. On one hand, they perform all the usual tasks of an internal auditor. On the other hand, their *annual reports* are published as are the external auditors'.

2) Regarding competence:

He accepted the different criteria.

It is important that the internal auditors be university graduates with a knowledge of computers. The municipality internal auditing unit has to be perceived as constructive and capable. It must be able to call upon a good knowledge of administrative relations inside the municipality and with the central government.

A good understanding of organisations and management is also important.

3) Regarding scope of work:

He accepted the criteria.

He stressed the importance of integrity both in policy and in practice in the municipality, and the role of the

municipality internal auditing unit to ascertain that it is kept.

Checking compliance with policies, plans, procedures, laws and regulations is the most important criterion. (That was also the opinion of the chief financial officer of the municipality consulted in this study.)

4) Regarding performance:

He accepted the criteria.

The follow-up is very important. For the last two years, the director said he had received all annual reports of the municipality internal auditors. He believed that this helps force the municipalities to address these reports in a serious manner.

5) Regarding management of the municipality internal auditing unit:

He did not accept the criterion of co-ordinating between the external and internal auditors because he did not believe that such co-ordination was desirable. He instructed his staff that every audit they perform in a municipality must include an evaluation of the quality of the operations of the internal auditing unit.

4.1.4. Analysing the results of the meetings from the first phase

As a result of the meetings, one criterion, "maintaining an honest, objective and fair ongoing process in decision making" was added to the scope of work component.

Most components and criteria were accepted by the respondents at the meetings. Some respondents were inclined to delete certain criteria, or to emphasise the importance of others. The recommendations, however, differed in detail between the different respondents.

Though not requested, they did in some instances enter into technical details on how to evaluate certain criteria.

Four of the five meetings were with people involved in the day-to-day work in the municipality.

Three of them – the mayor of the first municipality, and the municipality internal auditor and general director of the second municipality – wished to delete the same criteria. They suggested the deletion of items on the organisational status and on the management of the municipality internal auditing unit. The chief financial officer of the second municipality, did not wish to delete any criteria, but did not feel that he could comment on the management of the municipality internal auditing unit. The only reservation in the mind of the director of the department for auditing local authorities in the Ministry

of the Interior was that he was against any co-ordination between the internal and the external auditors.

The differences among the four representatives of the two municipalities could lie in the fact that the chief financial officer was relatively new to the municipality system. He was appointed some three years before. He might have therefore seen everything as a newcomer and questioned everything. The three others may already have been used to the existing system and not conceived the need to challenge it. A difference of conception may also be the key to the different approaches.

Taking into consideration the results of this first round of meetings, it can be inferred that:

- (1) The components for evaluating the effectiveness of the internal auditing unit, as they appear in the I.I.A. Standards, seem to cover the different components which the different respondents expected to find in such an evaluation relating to Israeli municipalities.
- (2) The varying emphases placed on different criteria were all connected to performance but showed variation between the different criteria forming the performance component.

4.2. Second phase meetings

4.2.1. Introduction

The purpose of this phase was to reach a broader and stronger basis among the users of the municipality internal auditing product. As in the first phase, the respondents were asked their opinion regarding the components and criteria for evaluating the effectiveness of internal auditing in municipalities.

The results of the first phase showed that three out of five did not think that either organisational status nor management of the municipality internal auditing department needed to be included among the list of components and criteria. Nevertheless, it was decided not to reject them and instead to leave the decision until after the second phase. On the other hand, another criterion was added at that stage under the component 'scope of work', regarding the necessity to maintain an honest, objective and fair ongoing process in decision-making in the municipality (see Appendix D). This should not be altogether surprising since, as already mentioned, a number of mayors are under investigation by the police. That is probably the reason why many users would wish to know explicitly that the internal auditing unit includes this item in its scope of work.

The technique employed to elicit the different users' comments on what the components and criteria should be was the same as in the first phase.

The users chosen to participate in the second phase were mostly represented groups of users which did not take part in the first phase. The reason was to include representatives of all the groups of users and to check what their attitude was regarding the components and criteria of the suggested model. Two additional participants from the municipality internal auditing body were added in order to reinforce their representation in those meetings, as they are at the core of the study.

The meetings were held in June and July 1995. Each meeting was held separately and lasted between half an hour and more than two hours.

The author met with:

- a) The senior deputy general director of the State Comptroller's Office, in charge of the audit of all local authorities in Israel. After many years in the position, he has an overall view of the situation.

The State Comptroller's Office publishes every few years (not on a regular basis) a special report devoted to local authorities.

- b) A senior director in the division which audits local authorities in the State Comptroller's Office.
- c) A municipality internal auditor. Though the city has a huge deficit, the current municipality internal auditor has an excellent reputation for performance.
- d) The former director of the Education department in a big municipality, who has moved to direct a national educational network in the public sector.
- e) A journalist, writing for a main local newspaper in Tel Aviv. He is in charge of covering municipality affairs, including municipality internal auditing reports.
- f) The Chairman of the Audit Committee in one of the largest municipalities.
- g) The internal auditor, in one of the biggest municipalities, in charge of the education institutions.
- h) A councillor from a medium size municipality.
- i) An accountant from one of the CPA firms appointed by the Ministry of the Interior to audit financial reports of local authorities.
- j) The deputy general director and director of human resources of a medium size municipality.

4.2.2. The approach used for these meetings

The approach used for these meetings was similar to the approach used in the first phase.

4.2.3. Meetings and opinions

4.2.3.1. Meeting with the senior deputy director of the State Comptroller's Office, in charge of the audit of local authorities in Israel

The senior deputy director's comments:

(1) Regarding independence:

The organisational status is clear.

Objectivity is a valid criterion. A conflict of interest may occur if the municipality internal auditor is asked to join active committees, notably the tender committee or the management committee, where the participation of the municipality internal auditor may be problematic.

Table 4.2: Summing up second phase meetings

Components for evaluating the effectiveness of municipality internal auditing	a) State Comptroller's Office - Sr. deputy director*	b) State Comptroller's Office - local authorities*	c) Municipality internal auditor*	d) Education department*	e) Journalist*	f) Chairman of audit committee*	g) Municipality internal auditing - education	h) Councillor*	i) CPA firm*	j) Municipality deputy general director*
<u>Independence</u>										
- Organisational status	-	-	-	+	+	-	+	(1)	+	+
- Objectivity	+	+	+	+	+	+	+	+	+	+
<u>Competence</u>	+(1)	+(1)	+	+	+	+	+	+	+	+
<u>Scope of work</u>	+	+	+	+(1)	+	+	+	+	+	+
<u>Performance</u>	+	+	+	+	+	+	+	+	+	+
<u>Management of the municipality internal auditing unit</u>	-(2)	-(2)	-(1)	(2)	+(1)	(1)	-	-	-	-
<u>Comments</u>	(1) Reservation about giving recommendations (2) Does not reject the idea of quality assurance.	(1) Reservation about the criteria of supervision of internal audits. (2) Planning the audit with scarce resources is very important.	(1) Quality assurance does not exist, but it should in the future	(1) The accomplishment of established objectives and goals is relevant only when it can be quantified. (2) Cannot refer to this point.	(1) He cannot say much about it, since he is in touch with the municipality internal auditor only.	(1) He cannot refer to this point.		(1) Independence of mind is important.		
* User titles appear in abbreviation. Refer to section 4.2.1 for full titles										

(2) Regarding competence:

He accepted the criteria.

He stressed the importance of correct relationships with auditees, as long as the internal auditing unit's proper function was never compromised.

He had some reservations about the internal auditing unit giving recommendations on how to correct deficiencies. Here it was necessary to heed carefully, since often there might be different ways to solve the problems and the internal auditor's recommendation might not be the best.

(3) Regarding scope of work:

He accepted the criteria.

In his mind, checking compliance with policies should rather be the task of the external audit, and even then great care was needed.

(4) Regarding performance:

He accepted the criteria.

(5) Regarding management of the internal auditing department:

He did not think it was relevant.

About co-ordinating internal and external auditors efforts - this is not a reciprocal relationship, since the municipality internal auditing unit is an integral part of the auditee. In big cities, the State Comptroller's

Office asks for the municipality internal auditors' work plans as well as their annual reports.

After an audit, the State Comptroller's Office sends the report directly to the mayor. It is up to the mayor whether or not to involve the municipality internal auditor.

He did not reject the idea that in the future his division would perform quality assurance upon the municipality internal auditing unit.

General comments by the senior deputy general director

He believed that just as the number of years that the State Comptroller can remain in post is limited by law, the municipality internal auditor's tenure should be similarly limited. He himself, in his own division, performs rotation among his auditors to limit the relationship between the auditors and the auditees whom they audit.

The mayors can if they wish easily neutralise the municipality internal auditors by not giving them the tools needed to perform their job.

The State Comptroller expects the municipality internal auditors to be able to check any subject, even if it brings them to a situation of direct confrontation. Still it does not expect them to check items that are directly connected to the mayors, such as the salary of the latter.

The true test of the municipality internal auditing unit is which subjects they choose to check. In particular, it is worth considering which problems the municipality internal auditing unit has been instrumental in solving when others did not want to tackle them. He did not think that the audit committee in the municipality at present has any substantial role.

4.2.3.2. Meeting with a senior director in the
division auditing local authorities in
the State Comptroller's Office

The senior director's comments:

(1) Regarding independence:

The formal organisational status is clear.

Objectivity is a valid criterion. There may be a conflict of interest situation if:

1. The municipality internal auditor or other members of the unit are appointed from within the municipality and in their new positions find themselves auditing an item in which they were involved through their former jobs. (This situation is increasingly unusual nowadays since most auditors are recruited from outside the municipality.)
2. The municipality internal auditor or the internal auditing staff avoids auditing certain issues, fearing possible personal retaliation (For example,

the municipality internal auditor or the internal auditing staff may refrain from investigating manpower if the director of manpower has some influence over the promotion of the municipality internal auditing staff).

3. The municipality internal auditor or the internal auditing staff are on friendly terms with the auditee socially. (In that case, only the results of the audit can show whether that relationship may have been influential. A priori, it is difficult for a third party to interfere because the limits are not clear.)

(2) Regarding competence:

He accepted the criteria, except for the supervision of internal audits, since in most municipalities it is not relevant. Even in the big three cities, the internal auditing units are quite small (in fact less than a dozen).

Nowadays, contrary to some twenty years ago, the State Comptroller's Office does not criticise the professional level of the municipality internal auditing staff. The recruited staff are university graduates with relevant professional background.

Correct relationships with the auditees are a much more important issue for the internal auditing staff than for the representatives of the State Comptroller's Office.

The latter come from "outside", stay as long as is needed to finish their audit and leave. The municipality internal auditing staff will have to continue to work with the same people day after day.

(3) Regarding scope of work:

He accepted the criteria.

In his view, the municipality internal auditing unit has an advantage in this area over the State Comptroller's Office. The reasons are that the municipality internal auditing unit knows the municipality well, and that the information reaching it, both formal and informal, is on an ongoing basis.

He stressed the importance of the economical and efficient use of resources and did not think much time should be allocated to the safeguarding of assets.

(4) Regarding performance:

He accepted the criteria.

The follow up component is, from a technical point of view, the simplest. The municipality internal auditing just has to check whether the decision to correct a certain deficiency was implemented or not. In practice, many deficiencies are not corrected. In this, the municipality internal auditing unit is in much the same position as the State Comptroller's Office, where the

correction rate in local authorities reaches an average of about 50%.

(5) Regarding management of the internal auditing department:

He did not think it relevant.

A statement of purpose or any other statement regarding policies or procedures more detailed than the Municipal Ordinance is not practical and will not add anything.

Training for the staff of the internal auditing unit is always desirable.

The relationship between the State Comptroller and the municipality internal auditor is not reciprocal. The municipality internal auditing unit should not repeat an audit recently performed by the State Comptroller's Office.

The work program is important to plan how to use the scarce resources available to the municipality internal auditing unit.

Quality assurance does not exist in municipality internal auditing.

General comments by the senior director

There is a parallel between the audit committees in the Knesset and in the municipalities. Both are composed of political members. Often political affiliations play a

primary role and interfere with the functioning of the audit committee.

The State Comptroller receives the annual reports presented by the different municipality internal auditors, and the range in the quality of work is broad.

4.2.3.3. Meeting with a municipality internal auditor

With a population of more than 160,000, the city is one of the largest in Israel. It suffers from high unemployment and is seeking investors to create new jobs.

The municipality internal auditor's comments:

(1) Regarding independence:

The present formal organisational status of the internal auditing unit is clear. She expressed her wish to see an internal auditing unit not depending on the good will of the municipality for its resources.

Objectivity may differ according to the situation in each municipality.

(2) Regarding competence:

She accepted the criteria. She stressed the importance of clear communication skills and the recommendations to correct deficiencies.

(3) Regarding scope of work:

She accepted the criteria.

She stressed the importance of reliability and integrity of information. Checking integrity in the decision making or daily work is very important in theory, but very difficult in practice (The treatment of tenders is a prime example – it is very difficult to know who is connected to whom, and parties do not have to bear the same names to be connected).

(4) Regarding performance:

She accepted the criteria.

From her experience, most of the deficiencies pointed out by the municipality internal auditing unit are corrected, though it sometimes takes a long time. In some cases, the delay is due to objective reasons, such as lack of budget. The follow-up component is very important.

(5) Regarding management of the internal auditing department:

She thought it is not relevant.

Quality assurance did not exist but should be taken into consideration in the future.

General comments by the municipality internal auditor

Her municipality internal auditing unit comprised five people, including herself.

She believed in a constructive way of auditing. When she submits a report, either the mayor or the general director of the municipality – according to the subject of the

report – call for a meeting with all the parties involved to table resolutions.

She had been at her job for some six years. She had not audited the implementation of decisions taken by the different committees in the municipality, but she intended to do so shortly.

She did not send her reports to anybody outside the municipality, nor did she try to be in contact with journalists. When approved to be published, the annual report is brought to the knowledge of the media – generally local newspapers – by the councillors, mostly from the opposition. Though the economic situation of the municipality was very bad, due to huge deficits, she had her own budget, whose purpose was to hire services from external professional consultants when needed. She used this budget also if she needed an audit on the human resources division, so that her staff would not find themselves in a conflict of interest situation. The human resources department decides on the conditions of employment of the staff.

4.2.3.4. Meeting with the former director of the education department in a big municipality

The former director of the education department's comments:

(1) Regarding independence:

He accepted the criteria.

Though the organisational status of the municipality internal auditors is known, it is very important that they should bring with them a certain prestige when appointed to the job.

He emphasised particularly the importance of objectivity. He expected total objectivity towards employees and elected members of the municipality (including the mayor).

(2) Regarding competence:

He accepted the criteria.

He placed great importance on clear communication skills, especially in recommendations for correcting deficiencies and on mastering techniques and procedures of internal auditing.

(3) Regarding scope of work:

He accepted the different criteria.

He believed that the criterion of accomplishment of established objectives and goals for operations and program was relevant only when the auditor could quantify the results, and that it was not a matter of opinion.

(4) Regarding performance:

He accepted the different criteria.

He stressed the importance of follow up.

(5) Regarding management of the internal auditing department:

He could not refer to this part.

General comments of the former director of the education department

During the time he had worked for the municipality, there were three different municipality internal auditors, one a former bookkeeper and two lawyers. Beyond question, the two lawyers had a quite different image – they were seen much more objective.

He believed that in order to enhance the objectivity of the internal auditing unit, a body external to the municipality should decide on the employment conditions of the internal auditing staff.

His impression was that the municipality internal auditing unit was somewhat apprehensive about tackling subjects where the "strongmen" of the municipality were in charge.

The follow-up should be undertaken by a competent external body and not by the municipality internal auditing unit, which does not have the power to enforce it.

4.2.3.5. Meeting with a journalist

The journalist was covering municipality matters, including municipality internal auditing, for a main local weekly magazine of Tel Aviv.

In general, he accepted the different criteria. Instead of reviewing every component separately, he rather preferred to mention a few points regarding the subject.

(1) It was important to take into account the level of independence of the municipality internal auditing unit because it influences the range of subjects audited. In other words, the range of subjects audited reveals the degree of independence of the internal auditing unit.

To enhance the unit's independence, the appointment of the municipality internal auditors and all decisions regarding their conditions of employment should be transferred from the municipality to the Ministry of the Interior.

(2) The reports presented after each audit by the municipality internal auditing unit are very important in correcting deficiencies. They are dealt with immediately either by the mayor or the general director, according to the subject, who call for a meeting where decisions are taken.

(3) The yearly work plan of the municipality internal auditing unit is fundamental because the subjects included will attract the public interest according to their importance for the public.

(4) He could not say much about the management of the municipality internal auditing unit. He himself was only in touch with the head of the unit.

4.2.3.6. Meeting with the chairman of the audit committee of one of the largest municipalities

The chairman of the audit committee's comments:

(1) Regarding independence:

The organisational status of the internal auditing unit is defined by the Municipal Ordinance.

Regarding objectivity, he accepted it as a valid criterion.

(2) Regarding competence:

He accepted the criteria.

It is important that the municipality internal auditor be an auditor with experience and knowledge.

He stressed that it was important to recommend improvements to correct defects.

(3) Regarding scope of work:

He accepted the criteria.

The municipality internal auditing unit is not supposed to criticise the policy of the municipality, unless it is clearly opposed to the law. The municipality internal auditing unit should check the implementation of decisions

taken at all levels of the municipality. Proper care should be taken in maintaining an honest, objective and fair ongoing process in the decision making, but he considers the remaining criteria equally important.

(4) Regarding performance:

He accepted the criteria.

He emphasised the importance of follow up. He believed that special power should be given to the municipality internal auditor if the same deficiencies repeat themselves.

The present author was present at the municipality council when the chairman suggested that in such a case, the municipality internal auditor would be empowered to add the specific name of the responsible person to the report being published and not just the function. (The proposal was rejected by the council.)

(5) Regarding management of the internal auditing department:

He could not refer to this part.

General comments by the chairman of the audit committee

The chairman considered that the appointment or dismissal of the municipality internal auditing staff should be the responsibility of the State Comptroller's Office to ensure independence. The municipality internal auditing unit in this municipality, has not audited any subject which directly concerns the actions of the mayor or his close

circle. In the very few cases in other cities where this occurred, the auditor was dismissed.

He believed that the audit committee is entitled to know and enquire into everything that happens in the municipality. He knew, however, that others disagreed. He considered that council members both from the coalition and from the opposition in the audit committee were anxious to see deficiencies corrected - much depends on who chairs the committee.

4.2.3.7. Meeting with the internal auditor, in one of the biggest municipalities, in charge of the education institutions

This internal auditor works in the municipality internal auditing unit.

The internal auditor's comments:

(1) Regarding independence:

He accepted the criteria.

In the present situation, political persons (meaning the council) appoint the municipality internal auditor. That creates a situation of dependence. The municipality internal auditing unit is therefore limited to the level of department directors. Above that level, the unit cannot act freely.

(2) Regarding competence:

He accepted the criteria.

His expectation from a good municipality internal auditor was a combination of a good director with an adequate professional background.

He emphasised the importance of clear communication skills.

(3) Regarding scope of work:

He accepted the criteria.

He attached more importance to:

- compliance with policies, plans, procedures, laws and regulations because, in his opinion, the main goal of the municipality was to give a better service to the public.
- economical and efficient use of resources.

(4) Regarding performance:

He accepted the criteria.

(5) Regarding management of the internal auditing department:

It was not so relevant.

General comments by the internal auditor

Of particular importance is the choice of topics included in the internal auditing work plan. They should deal with major control systems.

In the municipality, most deficiencies pointed out are corrected through the intervention either of the mayor or

of the general director, according to the importance of the topic.

4.2.3.8. Meeting with a council member of a medium size municipality

The councillor was also a lecturer in political sciences at a university.

The city, with a population of 85,000, is located in the centre of Israel.

The councillor pointed out from the beginning that he does not have much contact with the municipality internal auditing unit, apart from being given the annual report, like all councillors.

The councillor's comments

(1) Regarding independence:

In his opinion, independence of mind is important in relation to the internal auditing unit.

(2) Regarding competence:

He accepted the criteria.

He emphasised the importance of mastering techniques and procedures of internal auditing.

(3) Regarding scope of work:

He accepted the criteria.

He thought the most important criterion was compliance with policies, plans, procedures, laws and regulations.

(4) Regarding performance:

He accepted the criteria.

The follow-up criterion was the most important.

(5) Regarding management of the internal auditing department:

This was not relevant.

General comments by the councillor

The councillor was a candidate, on behalf of the opposition, to chair the audit committee in the municipality. Other members of the opposition opposed his nomination. They feared he would use this position to gain publicity, especially since he had made no secret of his plan to run for mayor in the next election.

In the municipality, he was in closer contact with the legal advisor, from whom he was inquiring about certain legal facets of the municipality's operations. On very few occasions, he had met with the municipality internal auditor and suggested that he check certain topics.

4.2.3.9. Meeting at a CPA firm, appointed by the
Ministry of the Interior to audit local
authorities

The firm was auditing a relatively small local authority in the northern part of Israel as its external auditor. Before that, the firm was the external auditor of a medium size municipality.

The firm's final report is submitted to the Ministry of the Interior. In the questionnaires received from the ministry, they are asked not only to check subjects relating to the financial audit but also subjects relating to the administration of the local authority (including questions about the internal auditing operation).

The CPA's comments:

(1) Regarding independence:

He accepted the criteria.

(2) Regarding competence:

He accepted the criteria.

He considered that it was very important to understand how the municipality works.

(3) Regarding scope of work:

All the criteria included are important.

(4) Regarding performance:

He accepted the criteria.

(5) Regarding management of the internal auditing department:

This was not so relevant.

There was no mutual co-operation between the external auditing and the internal auditing operations. It was all one-way. The external auditors will ask to look at the internal auditing unit's reports but not vice versa.

General comments by the CPA

It was not important to stick religiously to the work plan. Sometimes it was necessary to leave a topic that had been planned and to concentrate on another topic that had priority from the internal auditing point of view.

4.2.3.10. Meeting with the deputy general director and director of human resources in the municipality

The city is of medium size and is located in the centre of Israel with a population of about 65,000.

The deputy general director and director of human resource's comments:

(1) Regarding independence:

By looking at the organisational structure, one can infer that there was a problem of dependency upon the auditees. This dependency ultimately creates a conflict of interest situation. In practice, the mayor's attitude towards the municipality internal auditor will determine the latter's situation. The problem is not just with the top levels of the municipality, but with all levels.

(2) Regarding competence:

She accepted the criteria.

She emphasised the importance of interpersonal and communication skills.

She believed that much effort should be given to checking the integrity of operations in the municipality.

(3) Regarding scope of work:

She accepted the criteria.

(4) Regarding performance:

She accepted the criteria.

She attached much importance to follow-up.

(5) Regarding management of the internal auditing department:

It was not relevant.

She would welcome quality assurance control, performed by external specialists.

General comments by the deputy general director and director of human resources

The municipality internal auditing should pay a great deal of attention to tenders, as it is such a sensitive issue.

4.2.4. Conclusions from the first and second phase
 of meetings with the different
 representatives of users

All of the first four components (independence, competence, scope of work and performance) were accepted by all the respondents as valid in the evaluation of the effectiveness of internal auditing in municipalities in Israel.

Table 4.3: Summing up first and second phases meetings				
Components for evaluating the effectiveness of municipality internal auditing	Yes		No	
	Users within the municipality	Users outside the municipality	Users within the municipality	Users outside the municipality
<u>Independence</u>				
- Organisational status	4*	3	5	2
- Objectivity	10	5	-	-
<u>Competence</u>	10	5	-	-
<u>Scope of work</u>	10	5	-	-
<u>Performance</u>	10	5	-	-
<u>Management of the municipality internal auditing unit</u>	1**	2	7	3
* one respondent did not refer to that item ** two respondents did not refer to that item				

Regarding independence, there were some reservation from users about the need to include the organisational status of the internal auditing unit as a criterion. There was no suggestion that it was not a factor important for independence. Rather, it was felt that the organisational status of the municipality internal auditor was explicit in the Ordinance, and so could not elicit differing responses. Even so, to quote one respondent mentioned in

this study, "the mayors' attitude towards the municipality internal auditors will determine their situation". In other words, the mayors may, by their attitude, influence the perceived organisational status of the municipality internal auditor, even though the latter's official organisational status is the same for all municipalities. It was therefore decided to leave the organisational status as a criterion in the independence component of the model.

Many respondents rejected criteria within the component of the management of the internal auditing unit. Those criteria were, in their opinion, irrelevant because of the small size of the internal auditing unit in Israeli municipalities. Still others accepted the criteria related to professional development, to co-ordination between external and internal auditors and to quality assurance.

It was finally decided to retain the component regarding the management of the internal auditing unit, together with its criteria. One must however remember that many of the respondents in the research may have decided not to answer this section of the research because of a perceived lack of knowledge or relevance. The responses in the empirical research regarding this component proved decisive in deciding whether or not this component should remain part of the model.

Based on the different components and criteria decided upon in the model, a questionnaire was prepared. The questionnaire was used as the research tool in the empirical survey of this study.

Chapter five

Questionnaire development

5.0. Introduction

There are different ways of collecting information: observations, interviews, experiments, content analysis, questionnaires, etc. Here the chosen means was a questionnaire. The use of a questionnaire makes it possible to standardise information which helps in the interpretation of results. Questions must be specific and the language must be clear so that there will be no room for ambiguity or misunderstanding.

Weisberg & Bowen (1977:43-57) identify two types of questionnaires with their characteristics:

- (1)The open ended questionnaire, which basically enables the respondents to answer the question in their own words.
- (2)The close ended questionnaire, which gives a number of alternative answers from which the respondents are to select one or more.

Here the close ended format was selected, for the following reasons:

- (1)The questions are quick to answer.

(2)The respondents classify the responses themselves, thus avoiding any misunderstanding by the researcher of what the respondents meant.

(3)The format does not discriminate against inarticulate respondents.

De Vaus (1986:75) quotes the view of Gallup that closed questions are well suited for finding out how strongly an opinion is held, which is a principal concern of this research.

The questions in the empirical survey were of Likert-style formats. This involves providing the respondents with statements and asking them how strongly they agree or disagree.

Weisberg & Bowen (1977:50) maintain that in non-metric psychological research, people can distinguish up to seven different degrees reliably. In this study a range of six alternative answers will be given for each question. The number six was chosen to give a broad range of choice and at the same time avoid fence sitting. A seventh alternative "not available or do not know" was given in order to avoid forcing people to offer opinions on issues on which they have no knowledge.

5.1. Pilot testing

Every questionnaire must be tested and refined under real-world conditions.

Sudman and Bradburn (1982:283) declared that although together, they had more than fifty years' experience in questionnaire construction, they did not know any professional social scientists who claimed to be able to write questionnaires that need no revision.

The ideal questionnaire is one that communicates to the respondents and, in return, obtains the required information.

Account has been taken of the recommendation by Czaja (1996:90) that self administered questionnaires should not exceed eight pages.

A few preliminary steps were taken before the questionnaire was finalised:

(1) The present author played the role of the respondents and answered his own questions. Often even at this basic stage some problems could be detected and solved.

(2) The questionnaire was presented to peers for comments.

(3) Professor Selim and Dr. Rozevitch, the research supervisors, were asked to give their comments on the questionnaire.

(4) The questionnaire was pilot tested, for validity and reliability.

The questionnaire was designed to be self administered. The pilot test was sent to 26 respondents, belonging to the test target population (see section 3.1). The sample included users of the municipality internal auditing product both within the municipality (including the internal auditing staff) and outside.

Regarding the first category, namely users within the municipality, two municipalities were selected. One was located in the north of the country with a middle size population and the other was a larger municipality located in the centre. No meetings had been held with any officers or councillors from these municipalities at any prior stage of the research. The users in this case included the mayor, chairperson of the Audit Committee, directors and deputy directors of municipality departments.

The second category, namely users outside the municipality, included the following: executives of different levels from the State Comptroller's Office (from the department in charge of local authorities), a CPA office auditing a municipality on behalf of the

Ministry of the Interior, and a journalist covering municipality affairs for a newspaper. The respondents were asked to give their comments on the questionnaire and on the cover letter attached to the questionnaire from all possible points of view: ambiguity, syntax, form, clarity of statement.

In addition, the respondents were asked how much time they needed to fill in the questionnaire. This last information would enable the author to tell the respondents in the final questionnaire approximately how long they would need to fill in the questionnaire. Fowler (1993:103) reports that the Federal Office of Management in the USA has set a guideline that surveys should take less than half an hour.

Eighteen out of the twenty six questionnaires were returned in the collect paid envelopes that were part of the package.

All respondents but one reported as requested the time taken to fill in the questionnaire. Most of the responses fell between fifteen and twenty minutes. There were exceptions in the two extremes: one reported that it took five minutes and another thirty-five minutes. The average was eighteen minutes.

No remarks were made regarding the supervisors' letters, which were part of the package. The questionnaires, including instructions and statements, seemed to be

clear since no remarks were made regarding the syntax, form or clarity.

There was one remark from a user outside the municipality that was made by phone. He explained to the author that he found it difficult to give one strict answer to some of the statements since he was in contact with different municipalities and the quality of internal auditing differs from one municipality to another. The author told him that he expected the respondent to integrate his general impression on the different items where he felt it to be possible. Later on when the author received this respondent's questionnaire, most of the statements had in fact been answered. Nevertheless, the author took his remark into account and added in the instructions a note to explain what was expected from users that are in contact with more than one municipality.

Most of the items not answered by the different respondents, including the municipality internal auditing staff, related - as foreseen - to the management of the internal auditing department in the municipality. However, the unanswered items were not always the same.

In general, the results of the questionnaire were in line with what the author had anticipated.

The pilot test results opened the way to start the final test.

5.2. Statements used in the questionnaire

The statements are based on the different criteria, for each of the five components included in the model to evaluate the effectiveness of internal auditing in municipalities in Israel.

The criteria were checked through two phases of interviews with representatives of the different groups of users of the internal auditing product.

Some of the statements were inspired by questions that appeared in the research literature on internal auditing. Others were composed by the author. As mentioned, the questionnaire was pilot tested before being sent to the targeted population.

Each group of statements is related to specific hypotheses.

The statements cover all the criteria within the different components included in the model.

5.3. Purpose of each statement and linkage to relevant hypotheses

The questionnaire appears in English translation in Appendix H. The first section (Section I) serves to characterise the respondent and to gather demographic

data. Questions 1 to 3 are for all respondents, while questions 4 to 14 are for the municipality internal auditors only.

The questions addressed exclusively to the municipality internal auditors concern their staff and budget, educational programs, type of audits performed and other features specific to the internal auditing unit.

The different statements of Section II will be examined separately.

The goal in this section is to evaluate the effectiveness of the municipality internal auditing unit. Following the model presented, the effectiveness of the municipality internal auditing unit is multidimensional and includes five components:

- (1) The independence of internal auditing in municipalities.
- (2) The competence of internal auditing in municipalities.
- (3) The scope of work of internal auditing in municipalities.
- (4) The performance of internal auditing in municipalities.
- (5) The management of the internal auditing unit in municipalities.

For each of these components, the author included statements.

The respondents were asked to evaluate their agreement to each statement, according to their perception, on a scale of 1 (complete disagreement) to 6 (complete agreement).

5.3.1. Part 1: Independence - Statements one to seven.

The statements in Part 1 are related to the component evaluating the independence of the internal auditing unit in municipalities in Israel.

Independence, according to the model, is influenced by organisational status and objectivity.

- Statement number one is about the organisational status of the municipality *internal auditor*, who heads the internal auditing unit in the municipality.

Though the organisational status of the municipality internal auditor in Israel is defined by the law, the author considers it important to have the respondents' opinion. The organisational status may be different *de facto* from what the legislation intended, or it may be as intended but perceived by the respondents as inadequate for the requirements of the job.

- Statement number two is about the ability of the internal auditing staff, in general, to operate in a free and objective way.
- Statement numbers three and four test the freedom enjoyed by the internal auditing unit. They are intended to complement statement two in understanding the extent of that freedom.
- Statement number five has two purposes:
 - (1) To check that the internal auditing staff has no operating responsibilities to design or operate systems in addition to its regular duties.
 - (2) This statement is presented differently from the former ones, in that a "disagree" answer is expected. This should avoid what is called a "response set", when someone after reading a few statements, uses the same set for all the statements.
- Statement number six is to check whether the internal auditing unit is perceived as being free of any conflict of interest which could compromise its objectivity.
- Statement number seven is concerned with the perception of the respondents as to the extent of the mayor's involvement in deciding what items will

appear in the work plan of the internal auditing unit. The items included in the plan are supposed to be the municipality internal auditor's own decision. The more the mayor is involved, the more the independence of the municipality internal auditor is impaired.

Statements 1-7 are related to hypotheses one, two and three. The data analysis according to the different respondent groups might or might not confirm the different hypotheses.

5.3.2. Part 2: Competence - Statements eight to thirteen.

The statements in Part 2 are related to the component evaluating the competence of the internal auditing unit in municipalities in Israel.

Competence, according to the model, is influenced by: Appropriate educational background (the individuals in the internal auditing unit), knowledge skills and disciplines (the internal auditing unit as a whole), properly supervised internal audits, mastering techniques and procedures of internal auditing , skill in written and oral communication, high levels of honesty, objectivity, diligence, and loyalty.

- Statement number eight is about the clarity of communication of the internal auditing staff as

perceived by all the parties involved. Internal auditing staff should possess this skill.

- Statement number nine is concerned with the perceptions of the different respondents as to whether the internal auditing unit can call upon the necessary knowledge, skills and disciplines to carry out its responsibility.
- Statement number ten is about whether the internal auditor's relationships with auditees are satisfactory. A satisfactory relationship should be conducive to a successful audit. An auditee whose relationship with the auditor is satisfactory will be more open to accept the latter's findings and then to correct whatever is necessary.
- Statement number eleven checks whether the internal auditing staff convey every element of their work in a clear way both in oral and written communication. At every point in their work, the internal auditors must be able to clarify to the auditee the intentions and expectations of the internal auditing unit. Misunderstanding could impair the audit, while good understanding could improve the effectiveness of the audit.
- Statement number twelve evaluates the respondents' perception of the honesty and objectivity of the

internal auditing staff. Honesty and objectivity are important in internal auditing. It should enable the internal auditing unit even to raise items which might make the management feel uncomfortable. It is important that the internal auditing unit should be seen as honest and objective, in order for the auditees to co-operate.

- Statement number thirteen checks whether the internal auditing unit in the municipalities in Israel is seen as not merely pointing out malfunctions but as actually recommending improvement to correct them.

Statements number 8-13 are related to hypotheses four, five and six. The data analysis according to the different respondent groups might or might not confirm the different hypotheses.

5.3.3. Part 3: Scope of work - Statements fourteen to twenty two

The statements in Part 3 are related to the component evaluating the scope of work of the internal auditing unit in municipalities in Israel.

Scope of work, according to the model, encompasses the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations; the safeguarding of assets; economical and efficient use

of resources; the accomplishment of established objectives and goals for operations or programs; and maintaining an honest, objective and fair ongoing process in decision making.

- Statement number fourteen checks the perception in general as to whether the internal auditing unit evaluates the adequacy of the system of internal control in the municipality.
- Statement number fifteen is concerned with the perception of internal auditing as checking the reliability and integrity of information.
- Statement number sixteen is concerned with the question whether checks on compliance with policies, plans, procedures, laws and regulations are included in the scope of work of internal auditing.
- Statement number seventeen is about another facet of the scope of work: the review of the system used for the safeguarding of assets.
- Statement number eighteen checks whether the internal auditing unit is seen as checking the economy and efficiency with which resources are employed. In other words, it is not enough to look at the end product of an operation; it is also important to ascertain that it has been achieved in an economic and efficient way.

- Statement number nineteen is linked to the conception that internal auditing reviews operations or programs and compares the results with established objectives and goals.
- Statement number twenty examines whether the different respondent groups perceive that the internal auditing unit is checking that the decision making process in the municipality is free of corrupt practices.
- Statement number twenty one checks whether the internal auditing unit in its operation is seen as impartial between the different levels of the municipality.
- Statement number twenty two is a continuation of the previous statement and focuses on the perception of the respondents. The Municipal Ordinance expects the municipality internal auditor's scope of work to encompass the mayor's own operations. The statement is concerned with whether the different groups of respondents perceive that this is actually done.

Statements number 14-22 are related to hypotheses seven, eight and nine. The data analysis according to the different respondent groups might or might not confirm the different hypotheses.

5.3.4. Part 4: Performance - Statements twenty
three to twenty nine.

The statements in Part 4 are related to the component evaluating the performance of the internal auditing unit in municipalities in Israel.

Performance, according to the model, is influenced by: Planning the audit, examining and evaluating information, communicating results, and the follow-up to check whether proper action is taken on report audit findings.

- Statement number twenty three concerns the external framework of the reports issued by the internal auditing unit: whether the report is seen as clear, concise (short as possible) and timely (not too far in time from when the audit was performed - in order to be effective).
- Statement number twenty four deals with the question of whether the reports are constructed in a manner that indicates clearly the objectives, scope, results and recommendations of the audit.
- Statement number twenty five inquires whether the internal auditing tackles subjects of central importance in its audits. The internal auditing unit may be very active and possess all the

necessary skills, but still devote its energy to problems of only peripheral interest.

- Statement number twenty six is about the planning of the different audits performed by the internal auditing unit.
- Statement number twenty seven inquires into the follow-up performed by the internal auditing unit after reports have been presented. The purpose of the follow-up is to verify that corrective measures have been applied on any deficiencies pointed out, and that the audit has achieved the *desired results for the item* concerned.

From the interviews performed, it seemed that if corrective action was not taken at the time and the same deficiencies had to be pointed out repeatedly in subsequent audits, the perceived effectiveness of the internal auditing unit was impaired. Since the follow-up is concerned with implementation of recommended corrective action, it falls logically under the heading of performance.

- Statement number twenty eight evaluates whether the speed of implementation of recommended corrective actions on reported findings is perceived as satisfactory.

- Statement number twenty nine checks further whether there are unnecessary delays in which case the pace of corrective action, even if satisfactory, could still be improved. The presentation of this statement in the negative form was in order to prevent a "response set".

Statements number 23-29 are related to hypotheses ten, eleven and twelve. The data analysis according to the different respondent groups might or might not confirm the different hypotheses.

5.3.5. Part 5: Management of the internal auditing unit - Statements thirty to thirty five.

The statements in Part 5 are related to the component evaluating the management of the internal auditing unit in municipalities in Israel.

Management of the internal auditing unit, according to the model, is influenced by: the audit work planning, policies and procedures, personnel management development, co-ordinating internal and external audit efforts and the existence of quality assurance.

- Statement number thirty is about the perceived co-ordination of activities between the internal auditing unit in the municipality and the external auditor. The idea is that the internal and external

auditors could complement each other for the benefit of the municipality.

- Statement number thirty one inquires whether any form of external review program exists which could perform quality assurance of the internal auditing unit in the municipalities.
- Statement number thirty two is about the participation of the internal auditing staff in professional organisations.
- Statement number thirty three checks whether the internal auditing staff are encouraged to continue self-development for the benefit of the internal auditing unit in the municipality. It is self-evident that better trained internal auditors, up to date in fields relative to their job, will perform better.
- Statement number thirty four inquires whether the internal auditing unit maintains a written policy and procedures manual. During the interview phase, some respondents thought this unnecessary due to the small size of the internal auditing units in municipalities.
- Statement number thirty five inquires whether promotion or dismissal of internal auditing personnel is consistent with performance appraisals.

Statements number 31-35 are related to hypotheses thirteen, fourteen and fifteen. The data analysis according to the different respondent groups might or might not confirm the hypothesis.

5.4. Conclusion

This chapter has presented the different stages before the questionnaire used in the empirical research was finalised. The first step was to decide that a questionnaire would be the best means to collect the data from the respondents. Then, the close ended questionnaire, with its various advantages, was seen as the most appropriate for this research.

The Likert-style format was adopted. For each statement presented, the respondents had a range of six alternative answers asking them how strongly they agree or disagree. A seventh alternative "not available or do not know" was given. The questionnaire was pilot tested for validity and reliability with a sample from the targeted population. The outcome of the pilot test made it possible to send out the final questionnaires. This chapter also showed the connections between the statements used in the questionnaire and the components and criteria of the model, on the one hand and the underlying hypotheses on the other.

Chapter six

Respondents

6.0. Introduction

Before starting the empirical survey, the author knew it was not an easy task to collect data through mail self-administered questionnaires. It is common knowledge that the percentage of responses is usually quite low. Moreover, those who respond are not a random sample. Regarding those who do respond, Fowler (1993) writes that in general people who have a particular interest in the subject matter of the research itself are more likely to return mail questionnaires. Bainbridge (1989) mentions that though others have written about how to get high response rates for mailed surveys, his own experience has consistently shown that the proportion of recipients of a mailed printed survey who were willing to complete and return it is about 50%. Warwick & Lininger (1975:129) mention that "completion rates on many mail questionnaires are notoriously low, with figures of 40 to 50 percent considered good".

Menzel (1995) mentions an investigation by West, Berman and Cava on the ethical environment. They conducted a mail survey of personnel directors in USA municipalities of 25,000 and over in population. They reported a rate of response of 36.5%. In his own research, Menzel

reports that all regular members of the Florida City and County Management Association (FCCMA) and all regular members of the Texas City Management Association (TCMA) were selected as the study populations. Mail questionnaires were sent in Autumn 1991 to the members of the FCCMA and in early 1992 to the members of the TCMA. Although both associations actively endorsed the project and co-operated fully to encourage participation by their members, the response rate for the members of the FCCMA was only 39.5% and for TCMA was 45.5%.

A top executive from the Central Bureau of Statistics in Israel told the author that not much has been written on response rates to mail questionnaires in Israel, but it was expected to be lower than in the USA. The author consulted two professors from the School of Business Administration of Tel Aviv University and both Professor Hornik (1996) and Professor Izraeli (1996) reported that mail questionnaires in Israel yield very low rates of response, without venturing to quantify. The author also consulted a leading public opinion and research analyst company. Their rough evaluation of the response rate in Israel was about 15%, and for a questionnaire specifically on local government, they would assess the rate even lower. The reason was mainly the public's general lack of co-operation in surveys.

The main concern when such low response rates are obtained is to be convinced that the sample collected is

a fair representation of the target population and that the pattern of response has not introduced any bias.

Apart from a low response rate, there were other obstacles for which the author was not prepared. Representatives of official organs outside the municipalities, who had collaborated with the author in previous stages of the study, discovered that they were prevented from filling in the final questionnaire. The difficulties here were legal-procedural. Another problem that had to be overcome was a certain reluctance on the part of some respondents actually to evaluate the effectiveness of the municipality internal auditing unit. The percentage of responses was found to vary among the different groups.

6.1. The questionnaire package

A standard questionnaire package was prepared.

The package included two cover letters from the supervisors, the questionnaire in Hebrew (Appendix I - the English version appears in Appendix H) and a collect paid envelope addressed to the author.

The two cover letters were from Professor Selim in English (Appendix F) and from Dr. Rozevitch in Hebrew (Appendix G). In those letters, the respondent was given some background on the City University Business School, the research topic and its importance. The respondent was also informed that the questionnaire had

been pilot tested and that filling it in should take 15-20 minutes. Finally, the respondent was requested to fill in the questionnaire and send it back in the envelope provided.

Each questionnaire package was put in an individual envelope.

During the earlier interviews, many respondents had suggested that instead of sending the questionnaire packages separately to all the different respondents in a given municipality, it was better to send the packages together to one person who could be the "co-ordinator" in the municipality. This person would then allocate the questionnaires to the different respondents in the municipality, specified according to a standard list of job titles, and would supply the appropriate names. The list of job titles was provided in an additional letter from Dr. Rozevitch. A translation of the job titles was added in italics to the original and is presented in the second page of Appendix J. The co-ordinator was able later to follow up whether the respondents had sent back their questionnaires. It was recommended that the municipality internal auditor, having a vested interest in that topic, would be the co-ordinator.

During the pilot test, the author was asked to send more questionnaires than planned, because the "co-ordinator" anticipated the need to give the questionnaire to additional job holders. It was not clear whether the

reason was for internal political reasons or for the aims of the research. To provide for this need, two additional optional questionnaire packages were added to each set sent to the municipality with appropriate guidelines.

In fact, before sending the set, the author would call and inform the municipality internal auditor about the research and his request. About half, though, preferred the set to be sent to the general director of the municipality instead, and this was done.

6.2. The different groups planned to take part in the survey

The aim of the survey was to find out, through the data collected, how each respondent group evaluates the different components composing the model of effectiveness of municipality internal auditing in comparison to other respondent groups.

It was planned to have two categories of respondent groups: 1) Within the municipality 2) Outside the municipality.

The intention was to have several respondent groups in each category. In the category "within the municipality" the groups were: 1) the municipality internal auditing unit 2) the mayors 3) the general directors 4) Chief officers and middle level management of the finance, education and engineering

departments 5) Councillors (heads of departments, when appropriate, in the above mentioned municipality departments; and members of the audit committee).

In the category "outside the municipality" the groups were: 1) the State Comptroller unit auditing local authorities. 2) the CPA firms appointed by the Ministry of the Interior to audit the books of the different municipalities. The department auditing local authorities in the Ministry of the Interior could not be considered a separate group since only around half a dozen auditors were working there. 3) journalists covering municipality affairs.

It turned out that not all targeted groups could take part in the research for various reasons as follows:

Among the respondent groups outside the municipalities, the State Comptroller's Office division in charge of the audit of local authorities was not permitted to participate in the research. The author had met with the director of this division at previous stages of the research and had had his full co-operation. After checking, however, the director of the division told the author that neither he nor his staff were allowed to fill in the questionnaire. As auditors of the State Comptroller's Office, they were not allowed to present any official or even personal view concerning their experiences at work.

A second external group that could not take part in the research comprised the CPA firms appointed by the Ministry of the Interior. Again, the person in charge in the ministry, though he had met with the author at length at previous stages of the research was not allowed to provide a list of auditors.

Among the respondent groups within the municipality, it seemed unlikely from the first that the mayors would respond. The author nevertheless sent questionnaires to the mayors, but hardly any responded. On inquiring further, the author was told the mayors were counting on their general directors to answer.

Municipality internal auditors have formed a group that meets on a regular basis and discusses common problems. The author was provided with the mailing list. As of April 1996, forty two members were listed.

Henry (1990:14) suggests that when dealing with a small population, less than 50, collecting data on the entire population is likely to improve the reliability and credibility of the data. The 42 municipalities with internal auditing units were therefore all included in the target population.

Unfortunately, at the time of the investigation, there were serious security problems, including border crossfire, in the northern part of the country. The author felt it was not an appropriate time to request

the participation of job holders in three municipalities in that region.

In three other cases, human error and misunderstanding prevented the participation of the municipalities concerned.

For those technical reasons, which should not bias the data, only thirty six municipalities finally participated in the survey (Appendix K). These are best viewed not as a sample, but as the population.

6.3. Population base: (see also Tables 6.1-6.2)

Within the municipality:

- The mayor (population: 36).
- The audit committee (Two members for each municipality, namely the chairperson - traditionally a councillor from the opposition - and another councillor from the coalition. Population: 72).
- The municipality internal auditing unit (population: municipality internal auditors: 36, staff: 27).
- The general director (This post exists in most municipalities. When absent, the municipality secretary performs this function. population: 36).
- Three typical departments were chosen to represent the different main departments found in a municipality. Representing the technical departments - Engineering. Representing the service departments -

Finance. Representing the line departments - Education. Three levels of management were planned to take part in the research: The head of the department (when one is appointed it is a councillor), the chief officer of the department and a middle level officer. (The population of the chief and middle level officers: 108 each). Most municipalities have heads of education and engineering while many do not have heads of finance. In the opinion of Dr Rozevitch, with which the author agrees, the reason is that many mayors want to have finance under their direct supervision. Questionnaires were therefore sent to the heads of education and engineering only (population: 72).

- Two optional questionnaires were sent for the use of the "co-ordinator" to include additional respondents in the municipality (population: 72). Only those actually used were taken into consideration.

Outside the municipality

- the public - represented by the journalists covering municipality affairs, mainly from regional newspapers. (There are a few regional newspapers or magazines in each area. On the other hand, many cover more than one municipality. In total there are about 50 journalists working in different regional and local newspapers. Population: 50).

The parcels containing the questionnaire packages were sent to each municipality with a cover letter signed by Dr. Rozevitch and containing the list of job titles whose holders were hoped to participate in the survey (Appendix J).

Following telephone calls between the author and the municipalities, the parcels were sent either to the municipality internal auditor or to the general director of the municipality. The numbers were about equal, with no correlation between the addressee of the parcel and the size of the city.

To ensure a larger participation, a follow-up was performed by the author using telephone calls and also faxes. However, since many questionnaires were sent back anonymously, which in itself did not go against the research directives, it was difficult to find out which respondents still had not responded.

The author was pleasantly surprised by the backing of some general directors who added personal letters to the other respondents in the municipality requesting their co-operation and stressing the importance of the research.

In the middle of April 1996, the questionnaire packages were delivered by mail to the thirty six municipalities. At the same time, the appropriate questionnaire packages were sent to the journalists covering municipality

affairs in the local and regional newspapers. The author received the list of local newspapers thanks to the Centre for Local Government.

The date limit for receiving the completed questionnaires to take part in the research was June 30, 1996.

6.4. Response Rate

Table 6.1: Distribution of respondent groups - I (including mayors)								
	Within the municipality							Outside the municipality
	Users of municipality internal auditing services					Municipality internal auditing unit		Journalists
Questionnaires	Mayor	Councillors	General directors (1)	Chief officers	Middle level officers	Municipality internal auditors	Assistant to internal auditors	
Sent	36	144	36	117 ⁽²⁾	112 ⁽²⁾	36	27	50
Received	1	28	18	36	29	31	9	24
(1) Mostly general directors; in very few cases when the municipality had no general director, the questionnaire was filled in by the municipality secretary.								
(2) The number includes the optional questionnaires that actually were used.								

After consultation with Professor Selim, it was decided that the mayors, of whom hardly any had responded, should be excluded from the analysis. Later on, the author had individual meetings with mayors to have their opinion on the results of the data collected.

Table 6.2: Distribution of respondent groups - II
(excluding mayors)

	Within the municipality						Outside the municipality
	Users of municipality internal auditing services				Municipality internal auditing		Journalists
Questionnaires	Councillors	General Directors (1)	Chief officers (1)	Middle level officers	Municipality internal auditors (2)	Assistant to internal auditors (2)	
Sent	144	36	117	112	36	27	50
Received	28	18	36	29	31	9	24
Percent received	19.4	50	30.8	25.9	86.1	33.3	48
(1) As described in the next chapter, the general directors and chief officers, due to same behaviour of responses will collapse into one group for the data analysis.							
(2) The same is true for the two groups of municipality internal auditing respondents that will merge into one.							

The data collected in the empirical survey come from different categories of respondent groups. It would not therefore be appropriate to take an average response rate of all respondents. Each respondent group will be examined separately, later on.

The general co-operation of the public with mail questionnaires is expected to be low as described in the introduction to this chapter. Beyond that, as Fowler (1993) mentions, one has to consider the respondent's interest in the subject matter of the research itself. The incentive for answering was the same for all: the respondents who identify their names and address will be sent the results of the research. As it is, those results are probably more appealing to those already interested in the topic of the research.

An additional factor is the follow-up, which in this research was performed -- when possible -- on a continuous basis, rather than waiting for a certain date. There were two respondent groups on which the author could perform an individual and direct follow-up, namely the municipality internal auditors and the journalists. This goes some way to explain the relatively high response rates for those two groups. The municipality internal auditors were more interested than the journalists by the research topic because it dealt with the core of their work. This probably explains the difference in the response rate, even though there were similar follow-up procedures for both groups. Another respondent group which was partially followed-up individually and directly was the group of general directors. In half of the cases (see section 6.1), the co-ordinator was the general director, with whose office the author was in direct contact. Half of the general directors responded to the questionnaires. It seems that the good response rate is related to the direct contact which the author had with many of the general directors. In addition, as the author was explicitly told, in some cases the mayors expected the general directors to respond. Last but not least, many general directors were genuinely interested by the topic of the research.

For respondents outside those three groups, it was the co-ordinator rather than the author who was in direct contact. It is assumed that the co-ordinators delivered the different questionnaires as requested. Two questions still remain: 1) how much the other respondent groups were interested in the topic of the research, 2) how to evaluate the co-ordinator's follow up.

The second question is very difficult. Had the responses not been anonymous, the author could have found out which co-ordinator performed a good follow up; but that was not the case. The first question is easier to tackle, in relation to each of the remaining respondent groups.

The base population of the councillors' respondent group was composed in equal numbers of audit committee members and other councillors. Nearly 30% of the audit committee members did respond (the author expected more interest from this group), while only 10% responded from the other councillors.

Councillors are not paid for what they do in the municipality and that may explain why they are less willing to spend time on something that lies outside their duties.

As to chief officers and middle level officers, their rates of response were nearly 31% and nearly 26% respectively. The difference of about five percent

between the chief officers and middle level officers can be explained by the way that the municipality internal auditing unit works. The municipality internal auditing unit will be in closer contact with the chief officer of a department than with any particular middle level officer in the department. Every internal audit performed in the department will end up on the desk of the chief officer of the department, while only those internal audits that relate to specific middle level officers will be discussed with the latter. This may explain why the chief officer shows greater interest in internal auditing, and why this class yielded the higher rate of response. The rate of response of the assistants to the municipality internal auditors was about 33%, which is surprisingly low. The explanation may lie in the way some municipality internal auditors perceived the questionnaire. The author was told by Dr. Rozevitch, the external supervisor, that some municipality internal auditors contacted him to tell him that the questionnaire was a very sensitive issue since it was in effect evaluating their unit. It seems that some of them thought that this evaluation had to be performed by them and not by other lower staff members of the department. Their feelings seemed to be based on questions of principle rather than any bias.

It must be recalled that the target group was not a sample of any population, but in fact nearly the whole

population itself. Use of the mail questionnaires was the only way the author could reach the whole target population. The best way to achieve that goal was, as recommended, with the help of co-ordinators. Since the response rate was not total, the responses have to be seen as samples of the target population.

In order to show that the sample of the test is not biased and is a fair representation of the target population, the following steps were taken.

The author called on different job holders in municipalities using the trial and error method, after elimination, to pinpoint the reasons of those who chose not to send back their questionnaire.

Of the twenty four "successful" random calls - covering different municipalities and the different respondent groups that took part in the data analysis - the author was told by fourteen in different words that they did not find the time to fill in the questionnaire; four said that they did not fill in any questionnaires on principle; four others did not remember or know what questionnaire the author was referring to; one said he did not need to explain why he did not fill in the questionnaire; and one said he was new at his job and therefore he did not know enough to fill in the questionnaire honestly. From these answers, it appears that the decision not to answer was not due to any particular opinion held concerning the topic of the

questionnaire. From that point of view there is no reason to believe the respondents to be different from the rest of the target population.

The next step was to check whether the distribution of the respondents, per respondent group, properly represents the different categories of municipalities according to population size.

Five categories of municipalities according to population size were defined in the questionnaire (see Appendix H -section I, question 3). According to those categories, the distribution of the thirty six municipalities that took part in the empirical survey, is as follows:

Table 6.3: Distribution of municipalities according to their population size - I					
Category	I	II	III	IV	V
Municipality population (in thousands)	less than 40	40 to 70	70 to 100	100 to 140	more than 140
number of municipalities	13	9	3	3	8

Due to the small number of municipalities in the third and fourth categories, those two categories were collapsed into one in order to provide a broader base for comparison. In addition, the percentage of the number of municipalities in each category is presented in Table 6.4.

Table 6.4: Distribution of municipalities according to their population size - II					
Municipality population (in thousands)	less than 40	40 to 70	70 to 140	more than 140	Total
Number of municipalities	13	9	6	8	36
Percentage	36.1	25	16.7	22.2	100

The respondents of the different groups were also divided according to the same categories of municipalities. Since not all respondents mentioned their municipality's population size, a new column of "not known" was added. The most important figures for the comparisons are the percentages rather than the absolute values. Therefore, only the percentages of number of municipalities in each category appear in Table 6.5.

The number of respondents in each category appears in brackets while the percentage appears without brackets.

The general impression is that the categories of municipalities are fairly well represented in the data collected.

Table 6.5: Distribution of respondents compared to municipality categories.

Municipality population (in thousands)	less than 40	40 to 70	70 to 140	more than 140	Not known
Distribution of municipalities in percentage	36.1	25	16.7	22.2	
Councillors	25.0 (7)	17.9 (5)	14.2 (4)	25.0 (7)	17.9 (5)
Top management (general directors and chief officers)	24.1 (13)	24.1 (13)	16.6 (9)	22.2 (12)	13.0 (7)
Middle level officers	27.6 (8)	20.7 (6)	13.8 (4)	20.7 (6)	17.2 (5)
Municipality internal auditors*	32.3 (10)	29.0 (9)	12.9 (4)	22.6 (7)	3.2 (1)

* Municipality internal auditors' staff are not represented here as the units are not staffed in equal numbers in the municipalities. Their representation here would have distorted the comparison.

6.5. Conclusion

It appears from the investigations made, that the reasons that some of those who received the questionnaire did not respond had nothing to do with their views on any topic within the questionnaire. In any case, the rate of response is above what could normally be expected from such a survey in Israel. There is a fair proportional representation of the different categories of municipalities in the data collected.

It may be concluded that the data are unbiased and the sample is a fair representation of the target population.

PART THREE
EMPIRICAL SURVEY ANALYSIS

Chapter seven
Descriptive analysis

7.0. Introduction

The questionnaire designed for this research (Appendix H) had two sections. The first section was mainly demographic: the purpose of questions 1 to 3 was to help classify the respondents (in total 175). The rest of the questions in that section, questions 4 to 14, were designated for the municipality internal auditors only (in total 31). In those questions the municipality internal auditors were requested to provide data, mainly about their unit but also regarding their municipality.

The second section, which included 35 questions, was designed to elicit (for n=175) each respondent's evaluation of the effectiveness of the municipality internal auditing unit, based on the five components that are part of the model. The questions were divided into five groups in accordance with each component:

- 1) Part 1, the independence of the municipality internal auditing unit -- questions 1 to 7.
- 2) Part 2, the competence of the municipality internal auditing unit -- questions 8 to 13.

3)Part 3, the scope of work of the municipality internal auditing unit -- questions 14 to 22.

4)Part 4, the performance of the municipality internal auditing unit -- questions 23 to 29.

5)Part 5, the management of the municipality internal auditing unit -- questions 30 to 35.

This chapter will present separately the descriptive analysis of the two sections.

7.1. Section I of the Questionnaire

The responses to the group of questions 1 to 3, which made it possible to classify the respondents, will not be repeated in this chapter since this was already done in chapter six. The conclusion of the analysis in chapter six, after checking the different respondent groups, was that the sample collected from the survey was a fair and unbiased representation of the populations of the respondent groups.

This part will therefore focus on questions 4 to 14 of section I, which as mentioned already, were put to the municipality internal auditor only.

Questions 4 and 5 asked for the size of the internal auditing staff working in the municipality and whether there had been any increase in the last three years. The responses to questions 4 and 5 appear in Tables 7.1 and 7.2. respectively.

Table 7.1: Number of municipalities according to internal auditing staff per range of municipality population.

Municipality internal auditing staff size*	Municipality population (in thousands)					
	less than 40	40 to 70	70 to 100	100 to 140	more than 140	Not reported
1	8	4	1	1		
1.5		3				
2	2	1	1		1	1
3		1				
4					1	
5			1		2	
6					1	
9					1	
not reported					1	

* A presentation of the ratio of internal auditing staff to the population was not possible because the respondents reported their municipality population size category only.

Table 7.1 shows that there is no absolute correlation between the size of the internal auditing staff in the municipality and the population of that municipality. Though there is a discernible tendency to have a bigger internal auditing staff in municipalities with a population of more than 140,000, there are municipalities of 70,000 and more with an internal auditing staff of two or less, while other municipalities with a smaller population have internal auditing staffs of the same or even larger size.

Table 7.2: Number of municipalities according to staff increase in internal auditing units in the last three years per range of municipality population.

Staff increase	Municipality population (in thousands)					
	less than 40	40 to 70	70 to 100	100 to 140	more than 140	Not reported
no increase	8	7	2	1	2	1
.5		1				
1					3	
2		1	1		1	
not reported	2				1	

From Table 7.2, it can be inferred that most increases in internal auditing staff were among the municipalities of more than 140,000. In fact, of the municipalities in that range that reported, most had had an increase in their staff, as opposed to municipalities with a population of less than 40,000, where no internal auditing staff increases were reported for the last three years. Combining the information provided from the answers to questions 4 and 5, the main point that emerges is that in the last three years, the internal auditing staff in municipalities of more than 140,000 has increased. This may show that big municipalities recognise the need for a larger internal auditing staff for the sake of the work of the municipality.

Questions 6 and 7 were about the participation of the internal auditing staff in professional organisations (professional affiliations) and in continuing education

programs in the last two years. Though requested, most respondents did not provide numbers of participants in these programs. They preferred to offer a 'yes or no' answer. The responses to these questions are presented in Table 7.3.

Only general conclusions can be drawn from the responses to questions 6 and 7:

- (1) Most internal auditing staff were affiliated with professional organisations. Presumably most of them are affiliated with the I.I.A.-Israel.
- (2) There is a positive attitude towards continuing educational programs.

Table 7.3: Participation of municipality internal auditing staff in professional organisations and in continuing education programs per range of municipality population.																		
Municipality population (in thousands)	less than 40			40 to 70			70 to 100			100 to 140			more than 140			Not reported		
yes/no/no response	y	n	nr	y	n	nr	y	n	nr	y	n	nr	y	n	nr	y	n	nr
professional affiliation	4	2	4	5	2	2	3	-	-	1	-	-	5	1	1	1	-	-
education programs	8	-	2	6	-	3	3	-	-	1	-	-	6	-	1	1	-	-

Questions 8 and 9 asked for the total budget of the municipality, and the total budget of the municipality internal auditing unit. The author was interested in the proportion between those two numbers.

The percentage of the internal auditing budget as part of the total budget of the municipality is presented in Table 7.4. Twenty three out of the thirty one municipality internal auditors provided the requested information.

Table 7.4: Distribution of municipalities per percentage of the internal auditing budget as part of the total budget of the municipality per range of municipality population.

% of internal auditing unit in total budget	Municipality population (in thousands)					
	less than 40	40 to 70	70 to 100	100 to 140	more than 140	Not reported
0.06	1					
0.1					1	
0.14-0.16		2			2	
0.17-0.20	2	1	2	1	2	1
0.25		2			1	
0.3	1	1				
0.37-0.38	2					
0.44	1					
Average for each category	0.27%	0.21%	0.18%	0.19%	0.17%	

From Table 7.4, there does not seem to be any clear standard rule as to the percentage of the total municipality budget which is devoted to internal auditing. Still, for nine out of twenty three municipalities of different sized populations, the percentage was between 0.17 and 0.20, as it was for most

of the averages of each category (see last row of Table 7.4). It may be mentioned here that in meetings in the Knesset, before the amendment of the Municipal Ordinance in 1990 (see section 2.1.9), the I.I.A. (Israel) requested that the budget of the municipality internal auditing should be set at a minimum of 0.5% of the total budget of the municipality. This request was not granted as the percentages in Table 7.4 amply shows.

Question 10 enquired whether the municipality internal auditors have a budget to hire external professional experts to assist them; and if so, how many times they used this help in the last two years.

The responses to the question appear in Tables 7.5 and 7.6.

Table 7.5: Number of municipalities having a budget for the municipality internal auditing unit to hire external experts per range of municipality population (yes/no/no response).																		
Municipality population (in thousands)	less than 40			40 to 70			70 to 100			100 to 140			more than 140			Not reported		
Budget to hire external experts	y	n	nr	y	n	nr	y	n	nr	y	n	nr	y	n	nr	y	n	nr
	4	5	1	4	5	-	3	-	-	1	-	-	5	1	1	1	-	-

Table 7.6: Distribution of municipalities per number of times external experts were hired in the last two years per range of municipality population.

Number of times external experts were hired	Municipality population (in thousands)					
	less than 40	40 to 70	70 to 100	100 to 140	more than 140	Not reported
0		2	2		1	1
1-2	3	2			1	
3-4	1				1	
5-6			1		1	
more than 6				1	1	

The use of external assistance, as can be inferred from Tables 7.5 and 7.6, is quite common among municipality internal auditors in Israel. It also shows the understanding of the municipalities of the need for their internal auditing units to receive external assistance. This is either because of lack of expertise in a certain field or lack of manpower. Another possibility, revealed to the author during the fieldwork, was that there is a preference to have some particular topics reviewed by a third party. Such an example is the case of the manpower division, which may have a say in the promotion and salary of the internal auditing staff.

Eighteen municipality internal auditors, more than half, reported that they have a special budget for hiring

external experts for ad-hoc assignments. Only twelve of them made use of this budget in the last two years.

Question 11 asked the municipality internal auditors who in fact decides what items are to be included in their annual internal auditing work plan. According to the interpretation of the Municipal Ordinance, it is supposed to be the municipality internal auditor's prerogative to decide on the different topics to be audited. The purpose of this question was to check the theory against the facts.

The responses to question 11 appear in a yes/no presentation in Table 7.7, 'yes' meaning that the municipality internal auditor is the only one to decide the plan, while 'no' means all other alternatives.

Table 7.7: Distribution of municipalities according to municipality internal auditor's decision over annual audit work plan per range of municipality population.													
Municipality population (in thousands)	less than 40		40 to 70		70 to 100		100 to 140		more than 140			Not reported	
	yes	no	yes	no	yes	no	yes	no	yes	no	nr	yes	no
municipality internal auditor decides over annual audit work plan	5	5	3	6	3	-	1	-	4	2	1	1	-

Seventeen out of thirty-one respondents reported that they were deciding alone on their annual audit work plan. Leaving aside the one respondent that did not

report, thirteen others gave an answer opposed to the theory, that it was not their decision alone.

It seems that among municipalities with larger populations, the proportion of positive responses rises. This may be due to stronger internal auditing units who can better assert themselves than the smaller units which generally operate in smaller municipalities.

Question 12 listed different types of audit and requested the municipality internal auditors to indicate the types of audit their departments were performing.

All the municipality internal auditors (except one who did not answer the questions in that section at all) ticked the boxes in the questionnaire to show that they were performing all the different types of audit. This shows the acceptance of the modern interpretation of internal auditing in municipalities, as required by the Israeli law.

Questions 13 and 14 asked the municipality internal auditors how many years they had already held their position and how long they had been working in internal auditing in general. A summary of the averages of the responses to questions 13 and 14 per population size category appears in Table 7.8.

There are signs of career municipality internal auditors. Of the 29 municipality internal auditors that responded to questions 13 and 14, sixteen moved to their

position after previous experience in internal auditing. The length of that previous experience was between 3 and 8 years in eight cases, and between 12 and 20 years in the other eight cases. Twelve of these experienced internal auditors were appointed to their present position less than five years ago. This suggested a trend to hire career internal auditors to the position of municipality internal auditors.

Table 7.8: Signs of career municipality internal auditors		
Population ⁽¹⁾ of the municipality	Municipality Internal Auditor	
	Average number of cumulative years in internal auditing	Average number of years as municipality internal auditor
Less than 40,000 (n=9)	7.8	2.7
40,000-70,000 (n=9)	11.1	4.4
70,000-140,000 (n=4)	15	6
more than 140,000 (n=6)	11.7	6.8
(1) One municipality internal auditor was not included in the table because the population of the municipality was not reported		

Still, for thirteen it was their first job as internal auditors. All of those had been in post for less than nine years, eleven for less than six years. It may be too soon to describe them as career internal auditors.

7.2. Section II of the Questionnaire

Section II of the questionnaire was divided into five parts. Each part is related to one of the five components (independence, competence, scope of work, performance, and management, all relating to the municipality internal auditing unit) which form part of the model. Each part is composed of statements relating to activities connected to the relevant component. The respondent was asked to evaluate each statement on a scale of 1 to 6, the value 1 being "complete disagreement" and 6 being "complete agreement". A "not known/not available" response was also possible for those statements on which the respondent had no information.

For the sake of clarity in the descriptive analysis, the responses were divided into three categories, "disagree" replacing values 1-3, "agree" replacing values 4-6, and "not known/not available" responses.

The distribution of the responses is presented per statement and for each part separately, followed by an analysis of the results.

7.2.1. Independence of internal auditing in the municipality (statements 1-7)

The distribution of the responses collected appears in Table 7.9.

Table 7.9: Distribution of the evaluations given by the different statements regarding the independence of internal auditing in the municipality

Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
1.The organisational status of the municipality internal auditor is adequate for the fulfilment of his/her job.	42	24.0	127	72.6	6	3.4
2.The internal auditing staff carry out their work freely and objectively.	37	21.2	135	77.1	3	1.7
3.The internal auditing staff has access to all information, employees or elected members in the municipality, considered pertinent in the conduct of an audit.	16	9.1	154	88.0	5	2.9
4.All areas within the municipality are allowed internal auditing access.	23	13.1	149	85.2	3	1.7
5.The internal auditing staff assumes operating responsibilities to design or operate systems.	68	38.9	20	11.4	87	49.7
6.The internal auditing staff operation does not encounter any situation where conflict of interest is present.	75	42.8	92	52.6	8	4.6
7.The mayor decides what subjects will or will not appear in the work plan of the internal auditing unit.	54	30.9	100	57.1	21	12.0

The great majority of the respondents, between 72.6% to 88%, agreed with statements 1 to 4. Most respondents accept the organisational status of the municipality internal auditor as adequate for the job. The results also suggest that the respondents perceive that the internal auditing staff has free access to people and places and can carry out their work freely and objectively. Yet, for statement 7, which implies that the mayor decides what subjects will appear in the work plan of the internal auditing unit, the majority of the

respondents – about 57% – agreed to it. This in itself is surprising because, according to the Ordinance, it is supposed to be the prerogative of the municipality internal auditor. However, even the municipality internal auditors were divided regarding that topic (Table 7.7): out of 30 that reported, 17 answered that it was their decision and 13 that it was not their decision alone.

Statement 5 had a high percentage (nearly 50%) of respondents who preferred to tick the N/A (not known/not available) box. A high proportion of those were journalists, councillors and middle level management that do not interact as often with the municipality internal auditing unit as the top management do. It is assumed that those respondents that ticked the N/A box did so not because they are unaware that the internal auditing staff is not supposed "to assume operating responsibilities to design or operate systems" but because they were not familiar with every day practice. As expected, the majority of those who responded, 38.9% as opposed to 11.4%, did not agree.

The responses to statement 6 show clearly that quite a high percentage, 42.8% as opposed to 52.6%, of the respondents perceive that the internal auditing staff operation may encounter a situation involving a conflict of interest. Such a situation could interfere with the objectivity of the internal auditing unit. If one

compares the responses to this statement with those to statement 2, where 77.1% agreed with the objectivity of the internal auditing unit, there appears to be a contradiction. In explanation, it may be supposed that statement 2 describes the actual situation while statement 6 describes a potential situation. The question is whether the municipality internal auditing unit avoids certain subjects in order not to find itself in a conflict of interest situation. Such a case could occur if, for example, the human resources department has to approve the promotion of the internal auditing staff and the internal auditing staff performs an audit in the human resources department. This raises a grave question of whether the municipality internal auditing unit is indeed capable of covering all areas of the municipality operation.

7.2.2. Competence of internal auditing in the
 municipality (statements 8-13)

The distribution of the responses collected appears in Table 7.10.

Table 7.10: Distribution of the evaluations given by the different statements regarding the competence of internal auditing in the municipality

Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
8.The internal auditing staff is articulate.	25	14.3	145	82.8	5	2.9
9.The internal auditing unit possesses the knowledge, skills and disciplines needed to carry out its audit responsibilities.	25	14.3	140	80.0	10	5.7
10.The internal auditors maintain satisfactory relationships with auditees.	29	16.6	141	80.6	5	2.8
11.The internal auditors convey effectively, in oral and written communication, audit objectives, evaluations, conclusions and recommendations.	33	18.8	138	78.9	4	2.3
12.The internal auditors maintain high standards of honesty and objectivity.	25	14.3	144	82.3	6	3.4
13.The municipality internal auditing unit recommends improvements to correct deficiencies or irregularities.	19	10.9	154	88.0	2	1.1

The great majority of the respondents, between 78.9% to 88%, agreed with statements 8 to 13. It gives the impression that, in general, the respondents are quite satisfied with the competence of the internal auditing unit. It is interesting to point out that the highest

percentage (88%) went to statement 13, mentioning that the internal auditing unit recommends improvements to correct deficiencies or irregularities. This shows that the unit presents not only findings but also – as required – recommendations.

7.2.3. Scope of work of internal auditing in the municipality (statements 14-22)

The distribution of the responses collected appears in Table 7.11.

Table 7.11: Distribution of the evaluations given by the different statements regarding the scope of work of internal auditing in the municipality						
Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
14.The scope of internal auditing includes the evaluation of the adequacy of the municipality's system of internal control.	23	13.2	101	57.7	51	29.1
15.Internal auditors examine the reliability and integrity of information.	25	14.2	138	78.9	12	6.9
16.Internal auditors check whether the systems operating in the municipality ensure compliance with policies, plans, procedures, laws and regulations.	25	14.3	146	83.4	4	2.3

Table 7.11: continued						
Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
17.The internal auditing staff review the systems used for safeguarding of municipality's assets.	30	17.1	123	70.3	22	12.6
18.Internal auditing staff review operations or programs to ascertain whether results are consistent with established objectives and goals.	44	25.2	121	69.1	10	5.7
19.The internal auditing unit ascertains that an honest, objective and fair ongoing process is maintained in the decision making in the municipality and that no irregularities or personal benefits are involved.	42	24.0	128	73.1	5	2.9
20.The internal auditing unit applies the same rules for all levels of the municipality.	41	23.4	129	73.7	5	2.9
21.Municipality internal auditing does not encompass the mayor's own operations.	44	25.1	109	62.3	22	12.6

Statement 14 had a relatively high (29.1%) percentage of respondents who preferred to tick the N/A (not known/not available) box. A high proportion of those were journalists and middle level management, who are more familiar with the municipality internal auditing unit's checking of individual items. It is assumed that

respondents that ticked the N/A box did so, not because they are unaware that internal auditing is supposed to evaluate the adequacy of "the municipality's system of internal control", but rather because they do not know to what extent it is actually being done. Among the respondents, 57.7% as opposed to 13.2% agreed with the statement.

The majority of the respondents, between 66.3% to 83.4%, agreed with statements 15 to 21. The situation of statement 22 is different. Since the Ordinance states that the municipality internal auditing unit should encompass the mayor's own operations, one would expect that the majority of the respondents would disagree with statement 22, but this was not the case. Most respondents (62.3%) agreed with statement 22, as opposed to 25.1% who disagreed. The results of statement 22 may also be surprising if one looks at the high percentage (73.3%) of respondents that agreed with statement 21 declaring that "internal auditing applies the same rules to all levels of the municipality". The author believes that there is no contradiction. The fact is that the municipality internal auditing unit probably tends not to audit the mayor's operations for obvious reasons, and the users are aware of that and seem to accept it. Apart from that, the respondents believe that the internal auditing unit applies the same rules for all levels of auditees.

7.2.4. Performance of internal auditing in the municipality (statements 23-29)

The distribution of the responses collected appears in Table 7.12.

Table 7.12: Distribution of the evaluations given by the different statements regarding the performance of internal auditing in the municipality						
Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
23.The municipality internal auditing reports are issued in a clear, concise and timely manner.	38	21.7	132	75.4	5	2.9
24.The municipality internal auditing reports identify such elements as audit objectives, scope, background, results and recommendations.	34	19.4	136	77.7	5	2.9
25.Most reports presented by the municipality internal auditor tackle subjects of major importance to the municipality.	41	23.4	129	73.7	5	2.9
26.The internal auditing unit develops appropriate audit plans for established audit objectives.	44	25.2	108	61.7	23	13.1

Table 7.12: continued

Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
27. The internal auditing unit maintains a follow-up and reports whether corrective actions were taken following deficiencies and recommendations indicated by the unit.	43	24.6	123	70.3	9	5.1
28. The speed of corrective action on the findings of the municipality internal auditing unit is satisfactory.	80	45.7	80	45.7	15	8.6
29. There are no unnecessary delays in taking appropriate corrective action on reported audit findings.	84	48.0	76	43.4	15	8.6

The majority of the respondents, between 61.7% to 77.7%, agreed with the statements 23 to 27. This leaves the impression that, in general, the respondents believe that most topics tackled by the municipality internal auditing unit are of major importance; that they are pleased with the way the municipality internal auditing reports are presented; and that they confirm that the municipality internal auditing unit maintains a follow-up and reports whether corrective action was taken following its recommendations.

By comparison with the other statements, the responses to statements 28 to 29, dealing with the immediacy of corrective action are different. The division, in those two statements, between the respondents who agreed and those who disagreed is equal for statement 28 (45.7%), while for statement 29, 48% disagreed as opposed to 43.4% who agreed. This leaves no doubt that half of the respondents are not happy with the speed of corrective action (statement 28) and that they believe there are unnecessary delays (statement 29).

7.2.5. Management of internal auditing in the municipality (statements 30-35)

The distribution of the responses collected appears in Table 7.13.

Prior to the construction of the questionnaire, the author held interviews with major representatives of the groups of users of the municipality internal auditing product. Many of them questioned the relevance of the component of the management of the internal auditing unit in municipalities in Israel. In spite of those doubts, it was decided to leave that component in the empirical research and wait for the outcome of the test. In the actual results, a very high percentage of respondents, between 40% and 66.3%, did not evaluate statements 30 to 35 connected to this component. This reinforces the opinion that this component is not

relevant to the situation of the internal auditing units in municipalities in Israel.

Table 7.13: Distribution of the evaluations given by the different statements regarding the management of internal auditing in the municipality						
Statement with number	disagree		agree		N/A	
	N	%	N	%	N	%
30.The internal auditing department co-ordinates activities with the municipality external auditors.	48	27.4	45	25.7	82	46.9
31.The internal auditing department has an external review program to objectively determine the quality of its operation.	64	36.5	28	16.0	83	47.5
32.The internal auditing staff is involved with participation in professional organisations.	22	12.6	76	43.4	77	44.0
33.The internal auditing staff is encouraged to participate in continuing education programs.	22	13.7	72	41.1	70	40.0
34.The municipality internal auditing department maintains a written policy and procedures manual.	24	13.7	72	41.1	79	45.2
35.Performance appraisals ensure that audit personnel promotions and dismissals are consistent with the results of evaluators.	30	17.1	29	16.6	116	66.3

There is no co-ordination of activities between the internal auditors and the external auditors because the external auditors are against it. The external auditors look at the internal auditors as part of the "auditee", and they object to co-ordinating activities with the "auditee". There is also no external systematic review program to objectively determine the quality of the municipality internal auditing operation. The internal auditing staff in municipalities in Israel is very small, often composed of one or two internal auditors. Even in the three biggest cities, the internal auditing unit is staffed by a dozen or less.

All those facts lead to the conclusion that the component of management of the internal auditing unit cannot be part of the model evaluating the effectiveness of municipality internal auditing in Israel. As a result, statements 30 to 35 were excluded from the data analysis.

7.3. Conclusion

The descriptive analysis of the first part of the questionnaire, based on the responses of the municipality internal auditors, confirmed that there are no fixed rules regarding the size of the internal auditing staff or budget in municipalities in relation to population size. It also showed that there are signs

of career municipality internal auditors and that all types of audits are performed.

The descriptive analysis of the second part of the questionnaire, based on the responses of all the respondents, was presented for each component separately. The main finding of the analysis was the high non-participation in the evaluation of statements related to the management of the municipality internal auditing unit. Even beforehand, consideration of the objective facts concerning the operation of the municipality internal auditing unit had suggested that this component might not be relevant in Israel. This impression was strengthened when many users that the author met recommended that this component be excluded from the model. The results of the empirical research regarding this component finally led to a decision not to include it in the model. As a result, data and hypotheses related to the management of the municipality internal auditing unit were seen as obsolete.

Therefore, the outcome was that at the end of the descriptive analysis, only four components remained as part of the model evaluating the effectiveness of municipality internal auditing:

- 1) Independence
- 2) Competence
- 3) Scope of work
- 4) Performance.

The next chapter will enquire further into these remaining components of the model.

Chapter eight

Factor analysis for questionnaire used in the empirical research

8.0. Introduction

The second section of the questionnaire used in the empirical research contained the statements to be evaluated by the respondents. The statements were grouped according to the different components which made up the model of this study to evaluate the effectiveness of municipality internal auditing. The division of the model into five components was inspired by the Standards of the I.I.A. and tested in meetings with representatives of different respondent groups. It remains an open question whether the respondents in the empirical research accept that division. The statistical method used to check this was factor analysis, which through the correlations between the different items, seeks to differentiate between groups of items having a strong connection between themselves from other groups of items with which their connection is relatively low. The items in this research are the statements.

In section 7.2.5, the component of management was removed from the model. This decision was based on objective facts regarding municipality internal auditing

in Israel, comments made by major representatives of groups of users and finally the descriptive analysis.

In order to validate the questionnaire with its four remaining factors (independence, competence, scope of work and performance) a principal components factor analysis was performed on the related statements. This analysis provides the means to check if the respondents' attitude to the different statements is in keeping with the grouping of statements in the questionnaire. A good match between the factor analysis and the division of the statements according to the groups in the questionnaire, which formed the original components, would confirm that the questionnaire was validly constructed.

8.1. Factor loadings of statements on the four factors

The eigenvalue, which is a parameter calculated for each factor, indicates the importance of the factor in relation to the other factors, in the explanation of the variance. The rule of thumb is to choose the factors with eigenvalue higher than 1. In this factor analysis, four such factors were found. The four factors explained together 67.3% of the variance.

One statement, number 5, was not grouped with any factor and was hence excluded from the analysis. This statement was pointed out in the descriptive analysis as

having a high percentage of respondents who preferred to tick the not known/not available box.

The varymax rotation used in this analysis is a method which, by rotation of the factors, improves discrimination of the loadings between factors. The factor loadings of the remaining twenty eight statements on those four factors after the varymax rotation are presented in Tables 8.1-8.4. The names of the different factors found in the factor analysis were given after the different groups of statements emerged and by comparison with the original names of the components as they appear in the questionnaire.

Table 8.1: Factor loadings of the twenty eight statements on the factor of independence after the varymax rotation.		
<u>No. of statement</u>	<u>Statements</u>	<u>Loading</u>
3	The internal auditing staff has access to all information, employees or elected members in the municipality, considered pertinent in the conduct of an audit.	.75
2	The internal auditing staff carry out their work freely and objectively.	.75
4	All areas within the municipality are allowed internal auditing access.	.72
1	The organisational status of the municipality internal auditor is adequate for the fulfilment of his/her job.	.63
6	The internal auditing staff operation does not encounter any situation where conflict of interest is present.	.61
21	The internal auditing unit applies the same rules for all levels of the municipality.	.57
7	The mayor decides what subjects will or will not appear in the work plan of the internal auditing unit.	.47

From table 8.1, one can see that the factor of independence includes not only all the statements included in the questionnaire as related to the independence of internal auditing in the municipality, but also statement 21. It seems that statement 21, which enquires whether the internal auditing applies the same rules for all levels of the municipality, was perceived by the respondents as a criterion of independence and not as a criterion of scope of work.

Table 8.2: Factor loadings of the twenty eight statements on the factor of competence and performance after the varymax rotation.

No. of statement	Statements	Loading
13	The municipality internal auditing unit recommends improvements to correct deficiencies or irregularities.	.76
9	The internal auditing unit possesses the knowledge, skills and disciplines needed to carry out its audit responsibilities.	.75
11	The internal auditors convey effectively, in oral and written communication, audit objectives, evaluations, conclusions and recommendations.	.75
12	The internal auditors maintain high standards of honesty and objectivity.	.73
8	The internal auditing staff is articulate.	.73
23	The municipality internal auditing reports are issued in a clear, concise and timely manner.	.69
10	The internal auditors maintain satisfactory relationships with auditees.	.66
24	The municipality internal auditing reports identify such elements as audit objectives, scope, background, results and recommendations.	.65

Table 8.2 continued		
No. of statement	Statement	Loading
25	Most reports presented by the municipality internal auditor tackle subjects of major importance to the municipality.	.56
27	The internal auditing unit maintains a follow-up and reports whether corrective actions were taken following deficiencies and recommendations indicated by the unit.	.52
26	The internal auditing unit develops appropriate audit plans for established audit objectives.	.47

From table 8.2, one can see that in the factor of competence and performance eleven statements have a relatively high loading. Of those statements, six (namely 8-13) are included in the second component in the questionnaire which is related to the competence of internal auditing in the municipality. Five other statements (23-27) are included in the fourth component of the questionnaire, which is related to the performance of internal auditing in the municipality. The factor analysis did not discriminate between those two parameters.

Table 8.3: Factor loadings of the twenty eight statements on the factor of scope of work after the varymax rotation.

<u>No. of statement</u>	<u>Statements</u>	<u>Loading</u>
17	The internal auditing staff review the systems used for safeguarding of municipality's assets.	.77
18	Internal auditing staff appraise the economy and efficiency with which resources are employed.	.73
14	The scope of internal auditing includes the evaluation of the adequacy of the municipality's system of internal control.	.72
16	Internal auditors check whether the systems operating in the municipality ensure compliance with policies, plans, procedures, laws and regulations.	.68
15	Internal auditors examine the reliability and integrity of information.	.66
19	Internal auditing staff review operations or programs to ascertain whether results are consistent with established objectives and goals.	.63
20	The internal auditing unit ascertains that an honest, objective and fair ongoing process is maintained in the decision making in the municipality and that no irregularities or personal benefits are involved.	.60
22	Municipality internal auditing does not encompass the mayor's own operations.	.49

The factor of scope of work in Table 8.3 includes all the statements, apart from statement 21, included in the questionnaire as related to the scope of work of internal auditing in the municipality.

Table 8.4: Factor loadings of the twenty eight statements on the factor of implementation of corrective action following the internal auditing findings, after the varymax rotation.

<u>No. of statement</u>	<u>Statements</u>	<u>Loading</u>
29	There are no unnecessary delays in taking appropriate corrective action on reported auditing findings.	.86
28	The speed of corrective action on the findings of the municipality internal auditing unit is satisfactory.	.76

The factor analysis has led to a partially new set of factors: (1) independence, (2) competence-performance, (3) scope of work. From Table 8.4, one can see that there is also a fourth factor, even though it does not fit with the assumptions on which the questionnaire was built. This factor comprises two statements (28-29), which originally in the questionnaire were supposed to be part of the performance of internal auditing in the municipality. However, it seems that the respondents perceived those two statements as different from the other statements originally related to performance. In those two statements (28-29), the respondent is asked about the corrective action taken following the reported auditing findings. While the other statements deal with the direct effectiveness of the auditors, those two statements (28-29) deal with the corrective action taken by the auditees. One has to look at the corrective action taken following the internal audit as part of the

effectiveness of the internal auditing. There is little benefit in having a very competent internal auditing unit submitting excellent reports if the organisation does not take the right measures to correct the deficiencies that were found, as soon as possible. In the questionnaire, the examination of the corrective action taken had been included in the component of the performance. However, the respondents looked at it as a separate factor or component, as the factor analysis shows. This separate factor may be termed: Implementation of corrective action following the internal auditing findings. This fourth factor joins the other three already identified through the factor analysis.

8.2. Conclusion

In general, the assumptions on which the construction of the questionnaire was based were confirmed, apart from two points. First, an additional factor has emerged, the implementation of corrective action following the internal auditing findings. Second, the factor analysis did not distinguish performance from competence. In spite of that, it was decided to continue to separate those two components because though they are related, competence and performance are not the same thing. The competence and performance should be looked at as two subgroups within the same factor. Therefore, from this

part of the questionnaire, five components that had the responses of all groups of respondents were obtained (independence, competence, scope of work, performance and the implementation of corrective action following the internal auditing findings - see Figure 8.1).

The same pattern of hypotheses that were presented in the study are relevant regarding the implementation component. They are formulated hereunder for the sake of conformity in the methodology:

- (1)The respondents from the municipality internal auditing unit have a higher evaluation of the implementation of corrective action following the internal auditing findings in the municipality than the other respondent groups have.
- (2)The respondent groups outside the municipality have a lower evaluation of the implementation of corrective action following the internal auditing findings in the municipality than the respondent groups within the municipality.
- (3)There is a difference in the evaluation of the implementation of corrective action following the internal auditing findings in the municipality between the different levels of auditee respondent groups within the municipality.

In order to check to what degree the different items of each component belong to the same common factor – or in

other words the internal consistency for each component – the alpha (α) of Kronbach was used.

The common rule is that a high internal consistency exists when $\alpha \geq .70$. As can be seen in Table 8.5, a high internal consistency was found for all five components.

Table 8.5: Internal consistency (alpha of Kronbach) of the components					
Component	Independence	Competence	Scope of Work	Performance	Implementation
α	.84	.91	.92	.91	.87

From the questionnaire five components were produced based on the average of the different statements evaluations for each of the factors. The possible range of the score is between 1 to 6. The higher the score, the higher the evaluation of the effectiveness of internal auditing in the municipality. The results of those scores, according to the respondent groups, is presented in the next chapter.

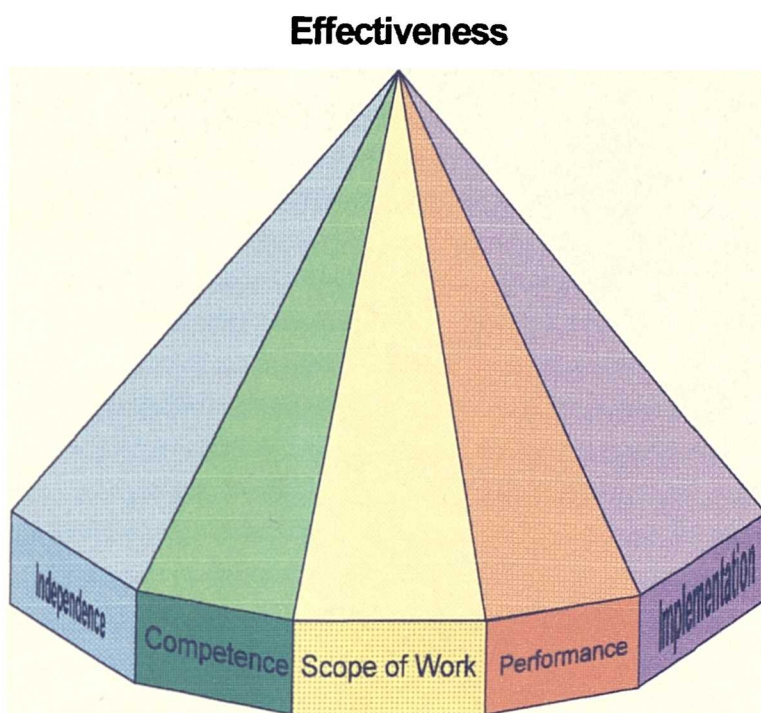


Figure 8.1: Components of the effectiveness of municipality internal auditing - Model II

Chapter nine

Data analysis

9.0. Introduction

In order to investigate the topic of this research, the methodology used was to formulate hypotheses and test them empirically.

On the basis of earlier research, as well as theoretical analysis regarding the perceived effectiveness of the internal auditing unit and regarding power in the municipality in Israel (see chapter two), the author has formulated three main postulates:

- (1) Respondents from the municipality internal auditing unit have a higher evaluation of the effectiveness of the municipality internal auditing unit than other respondent groups have.
- (2) The respondent groups outside the municipality have a lower evaluation of the effectiveness of the municipality internal auditing unit than the respondent groups within the municipality.
- (3) There is a difference in the evaluation of the effectiveness of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality.

Those three postulates were applied to each of the five components of the original model of effectiveness of the municipality internal auditing unit, as designed by the author and composed of: independence, competence, scope of work, performance and management, all in relation to the municipality internal auditing unit. Fifteen hypotheses resulted, three for each component.

The set of hypotheses was modified in light of the descriptive analysis, as well as the recognition of various objective facts regarding the municipality internal auditing unit, and various comments made by major representatives of groups of users. In particular, the component of management of the municipality internal auditing unit was removed from the model of effectiveness. The three hypotheses, numbers thirteen, fourteen and fifteen, related to that component were therefore no longer relevant.

As a result of the factor analysis, a new factor emerged, namely the implementation of corrective action following the internal auditing findings. The final model used for this study is therefore based on the five following components: independence, competence, scope of work, performance and implementation.

The data analysis in this chapter will refer to those five components. Although the implementation component was not the subject of any hypothesis in the original model, it will be treated in this chapter on the same

footing as the other four components for which hypotheses were formulated.

9. 1. Testing the hypotheses

The respondents were divided into five groups: General directors and chief officers (top management), internal auditors, councillors, middle level officers (middle level management), journalists. The distribution of these groups is presented in Table 9.1 and Figure 9.1.

Table 9.1: Distribution of the five respondent groups.		
Groups	number	%
top management	54	30.8
internal auditors	40	22.9
councillors	28	16
middle level management	29	16.6
journalists	24	13.7

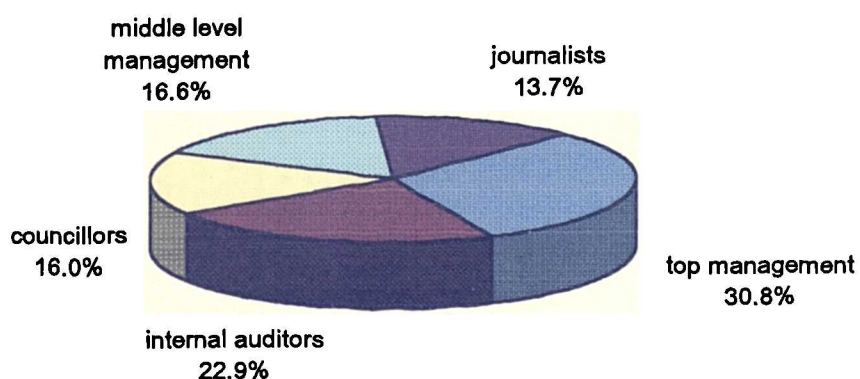


Figure 9.1: Distribution of the five respondent groups.

9.1.1. Differences between the different respondent groups for the five components of the model

The research hypotheses focus on the differences in the evaluation of the effectiveness of municipality internal auditing between the different respondent groups.

In order to check the hypotheses, one-way multivariate analysis of variance (MANOVA) analysis was used. The aim of the MANOVA analysis is to check the significance of the differences between averages when the number of dependent variables is more than one. The term "one-way" implicates the fact that in this present research there is one independent variable - the class of the respondent group.

In MANOVA analysis one first obtains a general result for the group of the dependent variables all together. In statistical analysis a result will be called significant if $p \leq .05$. A significant level of 5% has been adopted here, even though many of the results turned out to be significant at 1% or even 0.1%. If the result is significant, one can ask which variable contributes significantly to the difference found. This is done by the univariate analysis of variance (ANOVA) which is an analysis of variance performed for each component, separately.

The one-way MANOVA analysis was performed on the five components that evaluate the effectiveness of the

municipality internal auditing unit: 1) Independence, 2) Competence, 3) Scope of work, 4) Performance, 5) Implementation.

The MANOVA analysis revealed significant differences between the five respondent groups over all five measures. The results were: $F(20, 498) = 4.56$ $p < .001$; WILKS = .49. The WILKS represent the proportion of the unexplained variance. It varies between 0 and 1. The smaller the WILKS, the more effective the analysis.

The means and standard deviations of the five components, for each respondent group, and univariate ANOVA results to examine the differences between the groups on each component, are presented in Table 9.2. The means also appear in Figure 9.2.

Table 9.2: Means and standard deviations of the five components evaluating the effectiveness in the five groups.

Groups	Independence		Competence		Scope of work		Performance		Implementation	
	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>
Top management	4.52	.80	4.55	1.10	4.14	.85	4.26	1.04	3.64	.97
Internal auditors	4.99	.56	5.22	.52	5.01	.54	5.07	.49	3.51	.92
Councillors	4.03	1.07	4.60	.82	3.78	.93	4.14	1.10	2.98	1.33
Middle level management	4.44	.90	4.44	1.01	4.23	.83	4.23	1.32	3.48	1.13
Journalists	3.22	1.04	4.00	.82	3.25	1.06	3.42	.97	2.04	1.01
F(4,154)	17.15*		7.69*		18.51*		11.04*		10.71*	
* p < .001										

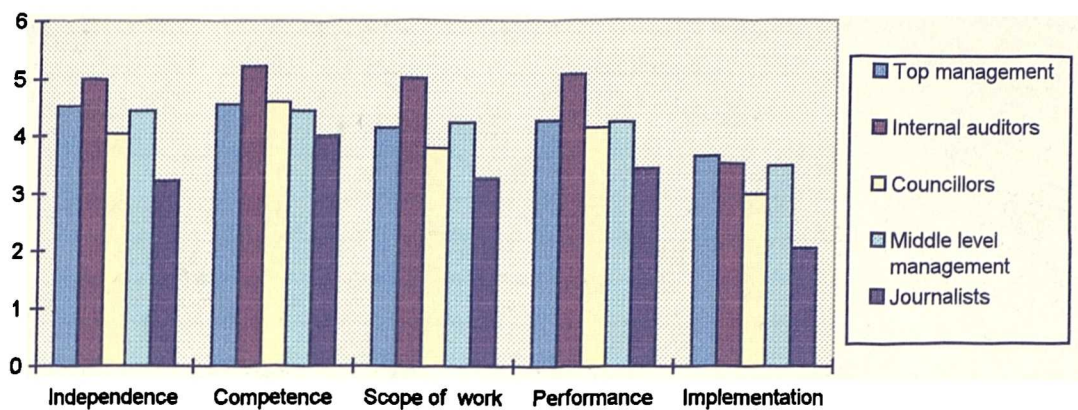


Figure 9.2: Means of the five components to evaluate effectiveness in the five groups.

As can be seen from Table 9.2, univariate ANOVA analysis which was performed on each factor separately showed significant differences between the groups in all the measures.

9. 1. 2. The evaluations by respondents from the municipality internal auditing unit as opposed to the other respondents.

In accordance to the research hypotheses, contrast analysis were performed to show the specific differences between the five groups. Hypotheses one, four, seven and ten state:

Hypothesis one - "The respondents from the municipality internal auditing unit have a higher evaluation of the independence of the municipality internal auditing unit than the other respondent groups have."

Hypothesis four - "The respondents from the municipality internal auditing unit have a higher evaluation of the competence of the municipality internal auditing unit than the other respondent groups have."

Hypothesis seven - "The respondents from the municipality internal auditing unit have a higher evaluation of the scope of work of the municipality internal auditing unit than the other respondent groups have."

Hypothesis ten - "The respondents from the municipality internal auditing unit have a higher evaluation of the performance of the municipality internal auditing unit than the other respondent groups have."

In keeping with hypotheses one, four, seven and ten - which imply that the respondents from the internal auditing unit have a higher evaluation of the effectiveness for all the different components - the first contrast was performed to compare the respondents from internal auditing units to the other groups in the research. Table 9.3 shows the results of that analysis. For all four components (independence, competence, scope of work and performance) and for $p < .001$, the results show that the evaluation of the respondents from internal auditing units were higher than those of the other respondent groups, as expected by all four hypotheses mentioned above.

Table 9.3: Contrast analysis to compare between respondent groups according to hypotheses.

Contrasts	Independence t test	Competence t test	Scope of work t test	Performance t test	Implementation t test
Internal auditing respondents vs. other groups	6.05***	5.01***	9.51***	5.91***	1.41
Journalists vs. other groups	5.65***	2.25*	3.25**	3.23**	5.47***
	* p < .05	** p < .01		*** p < .001	

The results are in line with other researches, such as Wright & Bargranoff (1995) that have made comparisons of the evaluation of the effectiveness of internal auditing between internal auditors and others, and have found the internal auditors' evaluations to be higher.

9.1.3. The evaluations of the journalists as opposed to the other respondents.

Hypotheses two, five, eight and eleven state:

Hypothesis two - "The respondent groups outside the municipality have a lower evaluation of the independence of the municipality internal auditing unit than the respondent groups within the municipality."

Hypothesis five - "The respondent groups outside the municipality have a lower evaluation of the competence of the municipality internal auditing unit than the respondent groups within the municipality."

Hypothesis eight - "The respondent groups outside the municipality have a lower evaluation of the scope of work of the municipality internal auditing unit than the respondent groups within the municipality."

Hypothesis eleven - "The respondent groups outside the municipality have a lower evaluation of the performance of the municipality internal auditing unit than the respondent groups within the municipality."

The journalists being the only external group of users in the empirical research, the term "the respondent groups outside the municipality" in the above hypotheses will be replaced by "the journalists".

According to hypotheses two, five, eight and eleven, - which imply that the journalists have a lower evaluation of effectiveness for all the different components - the second contrast analysis was performed to compare the journalists with the other respondent groups of the research. Table 9.3 also shows the results of that analysis. For all four components (independence, $p < .001$; competence, $p < .05$; scope of work, $p < .01$; and performance, $p < .01$) the results show that the evaluations by the journalists were lower than those by the other respondent groups, as expected by the four hypotheses regarding the journalists' evaluations.

These results confirm the theoretical analysis presented in this study regarding power, perception and internal

auditing in municipalities in Israel. That analysis led us to expect that users of the municipality internal auditing product, outside the municipality - in this case, the journalists - would offer a lower evaluation of the effectiveness of the municipality internal auditing unit than those within the municipality.

9.1.4. Evaluation by respondents from municipality internal auditing units and by journalists of the implementation component.

Following the factor analysis, a new factor or component was added, which is the implementation of corrective action following the internal auditing findings.

An analysis analogous to that performed with the other components was done to investigate whether the respondents from the municipality internal auditing unit offered a higher evaluation of the implementation component by comparison with other respondent groups (Tables 9.2-9.3). The analysis did not reveal a significant difference and therefore did not confirm that the respondents from the municipality internal auditing unit gave higher evaluation of the implementation component by comparison with other respondent groups. On the other hand, same analysis was performed to find out whether the journalists, compared to the other respondent groups, had a lower evaluation

of the implementation component. The result was positive ($p < .001$).

The journalists' evaluation of the implementation component follows the same pattern as has been found for the other components: It is the lowest among all the respondent groups. As for the respondents from municipality internal auditing units, in contrast to the other components, their evaluation for the implementation component was not confirmed to be the highest. In order to understand this result, one has to remember that responsibility lies not with the internal auditors, but with the top management to implement corrective action following the internal auditing findings. Therefore, since it is not part of what they judge as their responsibility, the assumption that they will rate their own effectiveness as the highest will not apply in the case of the implementation component.

9.1.5. Differences in evaluation among the different auditee respondent groups

Hypotheses three, six, nine and twelve state:

Hypothesis three - "There is a difference in the evaluation of the independence of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

Hypothesis six - "There is a difference in the evaluation of the competence of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

Hypothesis nine - "There is a difference in the evaluation of the scope of work of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

Hypothesis twelve - "There is a difference in the evaluation of the performance of the municipality internal auditing unit between the different levels of auditee respondent groups within the municipality."

The auditees in the research are the councillors, the top management and the middle level management. Since hypotheses three, six, nine and twelve do not point out specific directions as to the differences between these groups, post-hoc paired comparisons according to Scheffe ($p < .05$) were performed. In those analyses, significant differences were found regarding the *components* of independence, scope of work and implementation. In those three components the difference was found between the councillors and the two other auditee groups. Between those two groups - top management and middle level management - no significant difference was found. According to the means presented in Table 9.2, in all those three variables the evaluation by the councillors is lower than that by the two other auditee groups.

No statistically significant differences were found between the councillors, the top management and the middle level management regarding the components of competence and performance. Therefore, Hypotheses six and twelve which expected such a difference were not confirmed in the empirical research.

As for Hypotheses three and nine, which expected differences between the different levels of auditee respondent groups regarding independence and scope of work, the findings were: (1) A significant difference was found between the councillors, on the one hand, and the two other groups on the other. (2) No significant differences were found between those two groups - top management and middle level management.

As for the implementation, which was the new component formed after the factor analysis, the same results were collected as for the independence and scope of work: (1) A significant difference was found between the councillors, on the one hand, and the two other groups. (2) No significant differences were found between top management and middle level management.

9.1.6. Interpretation of Differences

It is possible to divide the five groups which took part in the research into three sub-populations: internal auditors, auditees and journalists. According to the means presented in Table 9.2, for all the components

except "implementation", the highest evaluation was given by the internal auditors and the lowest was given by the journalists. The auditees stand in between.

As mentioned already, those results are in line with the hypotheses of the research. In addition, it is worth comparing them with verbatim data which the author collected in interviews, prior to the empirical research.

In those individual meetings, described in chapter four 'Criteria for evaluating the effectiveness of internal auditing in municipalities in Israel', the representatives of the groups of users of the internal auditing product were asked to assess the different components and criteria that should be part of the evaluation of the effectiveness of internal auditing in municipalities in Israel. Besides their assessments, the representatives made additional comments, which are instructive in their approach to different aspects of the internal auditing operation. Most of the comments that were made related to the independence and scope of work components.

The municipality internal auditors that took part in the interviews did not complain about their organisational status, but rather were concerned about receiving adequate resources (budget and staff) from the municipality for the proper operation of their units.

As for the scope of work, different views were heard from the municipality internal auditors. One municipality internal auditor felt able to audit any topic in the municipality. Another felt constrained by the gap between theory (the law) and practice. The law prescribes a virtually unlimited scope of work including the operations of the mayor, the council and the top executives. In reality, the 'municipality internal auditor had better not audit the mayor'. The internal auditor in charge of the education sector in a large municipality conceded that the internal auditing unit could act freely up to the level of department directors.

It seems that municipality internal auditors define their own scope of work, the limits of which might differ from one municipality to another. Within that framework, they feel they can operate effectively.

The senior deputy general director of the State Comptroller's office did not define directly what was feasible. He stressed, however, that the mayors can neutralise the municipality internal auditors if they wish, by not providing the tools needed to perform their job.

This same concern led the chief finance officer of a certain municipality to suggest that the budget of the internal auditing unit should be allocated by an external body. Similarly, the chair of one audit

committee suggested that the appointment (or dismissal) of the municipality internal auditor should be the responsibility of the State Comptroller and not of the municipality. The journalist interviewed believed that not only the appointment of municipality internal auditors but all decisions regarding their conditions of employment should be transferred to an external body, preferably the Ministry of the Interior.

The director of the department in the Ministry of the Interior which audits local authorities also looked for ways to strengthen the position of municipality internal auditors. He was hoping for changes through legislation in the Municipal Ordinance regarding the appointment (and dismissal) of the municipality internal auditor and the provision of an adequate budget and staff numbers.

It seems on the basis of those interviews that the internal auditors look at what they can achieve while the others are more concerned with constraints. In a simplistic way, it could be said that the internal auditors see the glass as half full while the others see it as half empty. The differences in attitude may explain the higher evaluations that were given by the internal auditors to the first four components of effectiveness (independence, competence, scope of work, performance).

Looking at the different inputs that were brought in from the meetings held at an early stage of the

research, one may discern that the users external to the municipality - namely the State Comptroller's Office, the Ministry of the Interior and the journalist - seem more sceptical overall about the effectiveness of the internal auditing unit compared to the bulk of the other users. This seems to confirm the hypotheses that the users external to the municipality will give lower evaluations to the components of the effectiveness than the internal users.

However, there was only one group of users external to the municipality who took part in the empirical survey, namely the journalists. This group in fact gave the lowest evaluations to the different components of the effectiveness compared to all the other groups. This confirmed the hypothesis (albeit just for the journalists), together with the general impression from the meetings with the representatives of the groups external to the municipality.

The implementation, or in its full definition the implementation of corrective action following the internal auditing findings, is seen as separate from the performance component as was clarified in the factor analysis. The responsibility for implementing the corrective action lies firstly with the top management. This is confirmed by what the general director of a certain municipality told the author in the interview. According to the general director, when the municipality

internal auditor presents his report the mayor calls a meeting with all the parties concerned. Those meetings result in decisions regarding the correction of deficiencies. The implementation of those decisions is the general director's responsibility.

Therefore, it should not be surprising, looking at the calculated means in Table 9.2, that they gave the highest score on this component.

One may assume that respondents from the municipality internal auditing unit also see it from the same angle. According to the means presented in Table 9.2, their evaluation of the implementation was the lowest among the five components and lower than that by the top management. As a matter of fact, for all respondent groups, the lowest mean was for the implementation (see Table 9.2). This also explains why the journalists' evaluation, which was the lowest for the other four components, was also the lowest for the implementation. It is obvious that the different groups see the implementation as more problematic than any of the other components.

In most meetings held, the respondents representing the different groups of users reported the great importance they attached to the 'implementation' component, albeit without naming it. The municipality internal auditor that took part in the first stage of interviews considered that the pace at which the deficiencies were

corrected in the municipality was an important indicator of the effectiveness of the internal audit. However, according to the chief financial officer, the departments in the municipality do not attach enough importance to the municipality internal auditor's reports, with the result that deficiencies are not corrected fast enough. The senior director in the division which audits local authorities in the State Comptroller office admitted that in practice many deficiencies were not corrected at all. In order to improve the situation, the director of the department which audits local authorities in the Ministry of the Interior has requested that municipality internal auditors send him their annual report. He believes that this helps force the municipalities to address these reports in a more serious manner. The chair of one audit committee suggested that special powers should be given to the municipality internal auditors if the same deficiencies repeat themselves. By contrast, the ex-director of education in one municipality considered that since the municipality internal auditing unit does not have the power to enforce corrective action, the follow-up should be undertaken by a competent external body.

Among the auditees, a difference was found between the elected or political group of respondents - the councillors, and the professional respondent group

employed by the municipality. They are two distinct groups, one driven by political motives and less involved in the day to day affairs in the municipality, and the other fulfilling its professional duties. In the three components of independence, scope of work and implementation, the politicians gave significantly lower evaluations than the professionals.

It is noteworthy that the two groups representing the population of the municipality in large, namely the councillors - politicians - elected by that public and the journalists who are the proxy of that public, gave the lowest evaluations among the respondent groups.

These results seem to confirm the conclusion of the theoretical analysis presented at the end of section 2.2.3 of this work. It was inferred there that the gap between the high expectations from the internal auditing unit on one hand and its inability to have the deficiencies corrected rapidly on the other hand would affect the perceived effectiveness of the municipality internal auditing unit. It was anticipated that this discrepancy would be felt even more among the users that do not take part in the ongoing operation of the municipality: the journalists and the councillors. This expectation was borne out in the empirical research.

9.1.7. Testing the hypotheses - Summary

The results of the data analysis of the empirical

Table 9.4: Project hypotheses tested - Summary

Hypotheses (abbreviated format)	Confirmed	
	Yes	No
1.The respondents from internal auditing units have a higher evaluation of the independence than the other respondent groups have.	x	
2.The journalists have a lower evaluation of the independence than the other respondent groups have.	x	
3.There is a difference in the evaluation of the independence between the different auditee respondent groups. (1)	x	
4.The respondents from internal auditing units have a higher evaluation of the competence than the other respondent groups have.	x	
5.The journalists have a lower evaluation of the competence than the other respondent groups have.	x	
6.There is a difference in the evaluation of the competence between the different auditee respondent groups.		x
7.The respondents from internal auditing units have a higher evaluation of the scope of work than the other respondent groups have.	x	
8.The journalists have a lower evaluation of the scope of work than the other respondent groups have.	x	
9.There is a difference in the evaluation of the scope of work between the different auditee respondent groups. (1)	x	
10.The respondents from internal auditing units have a higher evaluation of the performance than the other respondent groups have.	x	
11.The journalists have a lower evaluation of the performance than the other respondent groups have.	x	
12.There is a difference in the evaluation of the performance between the different auditee respondent groups.		x
I.The respondents from internal auditing units have a higher evaluation of the implementation of corrective action than the other respondent groups have.		x
II.The journalists have a lower evaluation of the implementation of corrective action than the other respondent groups have.	x	
III.There is a difference in the evaluation of the implementation of corrective action between the different auditee respondent groups. (1)	x	
(1) A difference was found between the councillors and the other auditee respondent groups.		

research as compared to the hypotheses are presented in Table 9.4. For the sake of clarity and conformity, though not originally part of the hypotheses, the component of implementation has been added at the end of the list with another enumeration, using the formulation established in section 8.2. Hypotheses 13-15, regarding management of the municipality internal auditing unit, were left out since they were found not relevant in the case of municipality internal auditing in Israel.

9.2. Relations between the components used to evaluate the effectiveness.

In order to find out what are the relations between the components of evaluation, Pearson correlations were obtained (Table 9.5).

Table 9.5: Pearson correlation between components used to evaluate the effectiveness of internal auditing in municipalities.					
Independence	1.00				
Competence	.59*	1.00			
Scope of work	.70*	.74*	1.00		
Performance	.67*	.84*	.79*	1.00	
Implementation	.42*	.40*	.47*	.52*	1.00
	Independence	Competence	Scope of work	Performance	Implementation
* p < .001					

As can be seen in Table 9.5 there are relatively high correlations between the different components of the

questionnaire. As can also be seen in Table 9.5, the correlations between the implementation and the other components are lower than the correlations among the other components. This is not surprising, since the implementation component is related to the actual measures of correction taken by the auditee following the internal auditing report and not part of the internal auditing operation. As such, it is linked to the management and not directly to the auditing unit, unlike the other components. Still, it is interesting to point out that in general, those respondents that offered relatively high evaluations for independence, competence, scope of work and performance, also tended to offer relatively high evaluations for implementation. Correlations calculated for each group of respondents separately resulted in correlations similar to those presented in Table 9.5.

In order to check which of the components contribute to the explained variance of the evaluation of the implementation component, stepwise multiple regression was executed.

In this regression only the performance component contributed significantly ($\beta = .52$; $p < .001$; $R^2 = .27$) to the explained variance while the other components were excluded from the regression equation due to their overlapping with the performance, because of their correlation with the performance. β is the unique

overlapping with the performance, because of their correlation with the performance. β is the unique contribution of the performance, whose range is $-1 \leq \beta \leq 1$. R^2 is the total explained variance of all independent variables, whose maximum value is 1.

Though responsibility for the implementation of corrective action following the internal auditing findings lies not with the internal auditing unit but with the management, it was found that the higher the evaluation of performance of the internal auditing unit, the higher the evaluation of implementation.

It seems that the respondents expect that the higher the performance, the better the chances for better implementation. It is a fair conclusion that when the performance of the internal auditing unit is recognised as good, it will be harder to postpone or reject the corrective action which that unit recommends.

The case of the municipality internal auditor that was interviewed in the second stage of meetings seems to confirm this conclusion. She has, from hearsay, a very good reputation in her job, i.e. good performance. In her meeting she described the pace at which the deficiencies were corrected as satisfactory. In her case, one may trace a direct relationship between the performance of the municipality internal auditing unit and the implementation component.

9. 3. Relationship between the evaluation of effectiveness and the population size of the municipality.

The respondents were divided into three groups according to the size of the population of their municipality as reported in the questionnaire - Section I (Appendix H).

From among the 131 respondents that gave this information, 38 were from municipalities with a population lower than 40,000, 54 from municipalities with a population between 40,000 to 140,000 and 39 from municipalities with a population of 140,000 and up (see Figure 9.3).

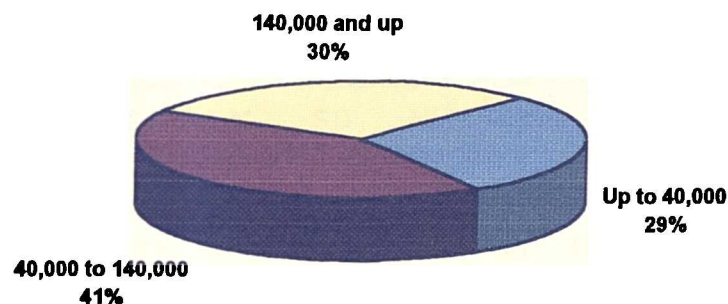


Figure 9.3: Distribution of municipalities according to population size

In order to find out whether there are any differences between those three groups, 4X3 MANOVA analysis was performed (based on the four respondent groups $\times$ the three classes of population size). This analysis enables checking whether there are any differences between the three classes of population size, and if

those differences are the same for all the respondent groups (interaction effect). In that analysis, a significant difference was found between the three groups of different population size, $F(10,230) = 2.26$; $p < .05$, while there was no significant interaction effect of respondent groups $\times$ classes of population size.

The means and standard deviations of the three groups for the five components evaluating the effectiveness are presented in Table 9.6. The means also appear in Figure 9.4.

Table 9.6: Means and standard deviations of the five components used to evaluate effectiveness in the three groups of different population size.										
Population size	Independence		Competence		Scope of work		Performance		Implementation	
	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>
up to 40,000	4.22	.91	4.50	1.11	4.06	1.06	4.00	1.24	3.17	1.10
40,000 to 140,000	4.66	.86	4.85	.98	4.41	.87	4.58	.95	3.76	1.01
140,000 and up	4.71	.79	4.82	.66	4.48	.79	4.75	.87	3.44	1.01
F(2, 119)	4.56*		1.57		2.96*		5.27**		5.49**	
* p<.05										

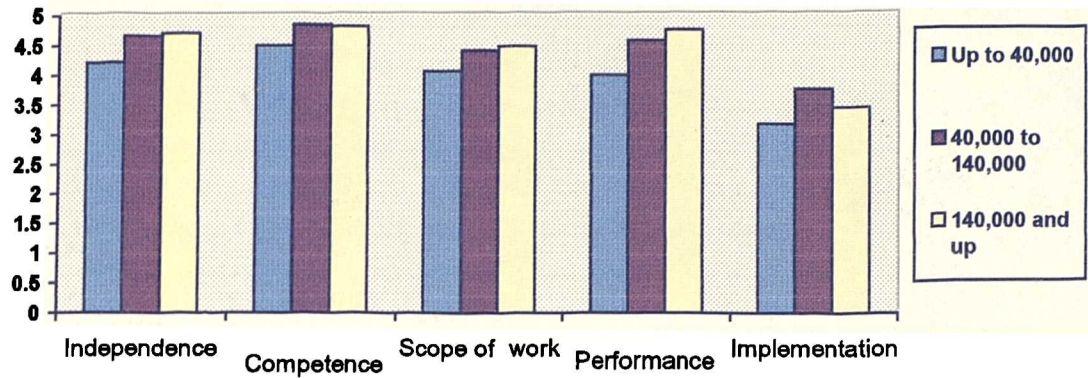


Figure 9.4: Means of the five components used to evaluate effectiveness in the three groups of different population size.

As can be seen in Table 9.6, univariate ANOVA for each component revealed significant differences between the three groups of different population size regarding all the components except for competence. Table 9.6 shows that the means for all the components used to evaluate the effectiveness of the internal auditing unit, were lower among the jobholders in municipalities with a population up to 40,000, compared to the two other groups. This shows a certain perceived relative weakness in the effectiveness of municipality internal auditing in small municipalities. However, in post-hoc comparisons according to Scheffe, a significant difference between the jobholders of the municipalities up to 40,000 and the other two groups were found only in performance. The reason may be that in bigger municipalities the internal auditing staff is generally

larger and therefore the skill mix is better, resulting in better quality work.

For independence and scope of work, a significant difference was found between respondents from municipalities with a population up to 40,000 and respondents from municipalities with a population of 140,000 and up. The position of the municipality internal auditors and their staff is stronger in the bigger municipalities. The fact that in bigger municipalities the municipality internal auditors hold more senior positions, and that their staff are larger enables the internal auditing unit to be more independent and have a larger scope of work. Table 9.6 shows that the implementation score is higher in the middle-sized than in the smaller municipalities, but then fall back in the largest municipalities. There was thus a significant difference only between the jobholders in municipalities with a population up to 40,000 and those with a population between 40,000 to 140,000. How can this be explained? First, it has already been shown that a higher evaluation of performance goes together with a higher evaluation of implementation. Since the evaluation of the performance was found significantly higher in municipalities of 40,000 and up in comparison to those of up to 40,000, one could expect similar findings in relation to implementation. In fact, in the case of the

implementation, a significant difference was found only between municipalities with a population between 40,000 to 140,000 and those up to 40,000. To interpret this, one needs to remember that the responsibility of the implementation component lies with top management. From the results, it seems that the respondents are less happy with the handling of the corrective measures following the internal auditing reports in the category of municipalities of 140,000 and up than in municipalities with a population between 40,000 to 140,000. It may be that, due to the complexity of the bigger municipalities of 140,000 and up, the process of implementation is perceived as slower and therefore receives a lower evaluation than in the category of municipalities between 40,000 to 140,000.

9.4. Relationship between the evaluation of effectiveness and data provided by the municipality internal auditors

In section I of the questionnaire (Appendix H) the municipality internal auditors were asked to fill in some data regarding their municipality, such as the total budget of the municipality as a whole and of the municipality internal auditing budget alone, the size of the municipality internal auditing staff, number of years in internal auditing and whether they use external experts. The author has already mentioned, in chapter seven of the study, certain aspects of that data.

In order to find out if there are any relations between those variables and the components used to evaluate the effectiveness of municipality internal auditing, Pearson correlations were calculated. A significant correlation was found between the relative size of the municipality internal auditing budget - as part of the total budget - and the independence ($r = .34$; $p < .05$). Another significant correlation was found between the seniority (number of years in internal auditing) and the independence ($r = .42$; $p < .01$). These two correlations show that the higher in percentage the budget of the municipality internal auditing, and the higher the seniority of the municipality internal auditors are, the higher the independence was perceived.

That can also be presented by saying that the more importance is attached to the internal auditing unit, the more independent it is perceived to be. Also, the more experienced in internal auditing the municipality internal auditors are, the more independent they perceived the internal auditing unit to be.

Regarding the use of external experts, t-test analysis was performed between the municipality internal auditing units that were using external experts and those that did not. No significant differences were found, for any component.

9.5. Differences between councillors from the opposition and the coalition.

The councillors were divided according to the affiliation reported, as belonging to the ruling coalition (n=19) or to the opposition (n=8) in the municipality. One councillor did not report on that topic. The purpose was to find out whether there are any differences between the two groups in the different components used to evaluate the effectiveness of the municipality internal auditing unit. A oneway MANOVA was used. The analysis did not reveal any difference between the two groups, whether over all the five factors $F(5, 21) = 2.11; p > .05$, or in univariate ANOVA for each measure separately. The means and standard deviations and the univariate ANOVA performed on each component separately are presented in Table 9.7.

The fact that no significant difference has been found between councillors of the coalition and the opposition is interesting. It suggests that the politics does not influence councillors in their judgement of the effectiveness of the municipality internal auditing unit, or at least that it influences those of the coalition and those of the opposition similarly.

One could expect councillors of the opposition to be more critical regarding the municipality internal auditing unit since they may look at its report as "ammunition" against the mayor. This research, however,

has found no supporting evidence, though further research is needed.

As to the audit committee, which is composed of councillors both from the ruling coalition and from the opposition, the author discovered from interviews that it was not highly regarded by any of the respondents, with one sole exception - who was himself the chair of an audit committee. An unfavourable view of audit committees was offered by two senior representatives of the State Comptroller's Office, one mayor and various top executives. All viewed the audit committee as composed of calculating politicians, whether affiliated to the opposition or to the ruling coalition.

A good descriptive example is the case of the councillor of the opposition who was himself a candidate to chair the audit committee in the municipality. He told the author in his interview that other members of the opposition opposed his nomination. They feared he would use this position to gain publicity, especially since he had made no secret of his plan to run for mayor in the next election. This short narrative may be understood in two opposite ways. Either the other councillors were worried that he was not going to be serious enough in his task and would just be interested in attracting publicity; or they were afraid he would do take the task so seriously that he would attract too much publicity. Either way, this story shows that councillors suspect

each other of putting their political agenda before the municipality's interest.

The only favourable view of the audit committee was offered by a serving chairman. He agreed that there was no difference in behaviour between councillors from the opposition and coalition; but he maintained that they were all seriously anxious to have any deficiencies corrected.

Table 9.7: Means and standard deviations of the five components used to evaluate the effectiveness by councillors from the coalition and the opposition.										
Councillors	Independence		Competence		Scope of work		Performance		Implementation	
	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>
From the Coalition	4.22	1.06	4.52	.75	3.81	.93	4.20	.95	3.24	1.25
From the Opposition	3.59	1.04	4.81	.99	3.69	1.01	4.01	1.46	2.38	1.41
<u>F</u> (1, 25)	2.05		.73		.09		.17		2.49	

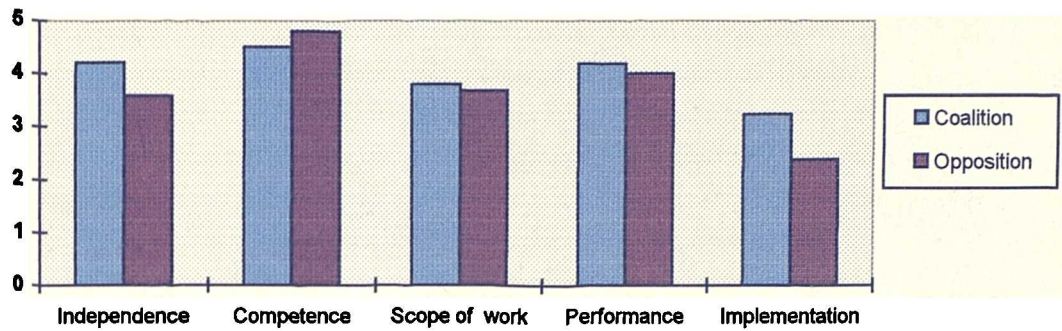


Figure 9.5: Means of the five components used to evaluate the effectiveness by the councillors from the coalition and the opposition.

9. 6. Presenting the main results of the empirical research to mayors and conclusion

In consultation with Professor Selim and two other distinguished professors of the City University Business School, Professor Collins and Professor Holtham, it was recommended that the mayors - due to their important role in the Israeli municipality - should also have direct input into the research.

Knowing the difficulty in obtaining the co-operation of the mayors, Professor Selim suggested consulting Dr. Rozevitch and another expert as to what would be the best feasible way to have the mayors' input.

Dr. Rozevitch and Dr. Menuchin, both leading experts in the Israeli local government and public administration arena, acknowledged the difficulty in having the mayors'

input. The mayors would not "spend" their time filling in a questionnaire, not even by dictating their answers to the author. In order to have their comments, the purpose of the meeting had to be more appealing. The recommendation was to let the mayors know that the research had been carried out and that the main results would be presented to them exclusively, in face to face meetings, in order to have their comments which were of great importance to the research.

The author collected separately the opinions of six mayors forming, according to Dr. Rozevitch, a fair representation of most municipalities in Israel. In the meetings with the mayors, the author would present briefly the purpose of the research, the means used to collect the data and the different respondent groups that took part in the research.

Subject to the time limitation of the meetings, the author presented very schematically the results of the research:

1. Respondents from the municipality internal auditing units gave higher evaluations of the effectiveness of the municipality internal auditing unit for all the different components apart from implementation.
2. The journalists gave the lowest evaluations of the effectiveness of the municipality internal auditing unit for all components.

3. No difference was found between councillors of the coalition and the opposition.
4. The evaluations given by the councillors regarding the components of independence, scope of work and implementation were lower than those given by the top management and middle level management.
5. No difference was found between the top management and middle level management.
6. In municipalities with a population of up to 40,000, the evaluation of all components tended to be lower than in bigger municipalities.

The mayors, with no exceptions, accepted the results and were not surprised by them.

Since there were no contradictions between the mayors' comments, the author has been able to integrate their opinions in the following comprehensive summary:

- (1) The differences in the evaluation of the effectiveness of municipality internal auditing are correlated with the closeness of the respondent group to the actual day to day work of the municipality internal auditing. The closest are the internal auditing respondents themselves, then the professionals who are day after day at the municipality, then the councillors who do not come to the municipality on a day to day basis, and then

the journalists who are outside the municipality work.

(2) The journalists are interested only in negative aspects of the municipality. They, thus, point out deficiencies, without mentioning the vast majority of corrections which are in fact implemented following the internal auditing findings. That is why the journalists have the impression, which they project also on the public, that deficiencies are not corrected.

(3) Councillors, either from the coalition or the opposition do not pay much attention to the internal auditing unit. They pick up what may serve their own goals. They are instrumental in leaking to the journalists parts of the municipality internal auditing report even before its official release.

(4) The mayors' relationship with their own municipality internal auditors is a major influence on how the other jobholders will consider the municipality internal auditing unit.

(5) The difference in the evaluation between the jobholders in small municipalities and bigger municipalities lay in the difference of the qualifications of the persons heading and operating small municipalities as compared to those in the bigger municipalities.

(6) In bigger municipalities, the municipality internal auditor has more credentials, highly stature and a larger staff, all of which makes the internal auditing unit more impressive.

The input collected from the mayors has confirmed the main results of the empirical research, by the fact that the mayors have accepted them and have even looked at ways to explain them.

PART FOUR

CONCLUSION AND RECOMMENDATIONS

Chapter ten

Research conclusions and recommendations

10.0. Introduction: Research summary

The first objective of the research was to develop a model to evaluate the effectiveness of internal auditing in municipalities in Israel. The model was then validated through a process which included: (a) Interviewing people involved with the municipality internal auditing product about the components and criteria proposed for the model; (b) Creating a questionnaire based on the model and pilot testing it before dispatching the final questionnaire; (c) After the descriptive analysis, the statements in the questionnaire were subjected to factor analysis in order to examine to what extent the respondents accepted the division of the model into its original components; (d) The model was then modified in light of these findings and in its redefined form was then used to test the hypotheses.

The final outcome is a model for evaluating the effectiveness of internal auditing in municipalities in Israel. This model can be used either for macro

purposes, e.g. to explain behaviour related to the effectiveness of internal auditing in municipalities in general, or for micro purposes, e.g. to evaluate the effectiveness of the municipality internal auditing unit in a particular municipality.

Given the nature of this study, the model was used for macro purposes only. However, the municipality internal auditor of one large municipality has already informed the author that he was using the model in order to evaluate the effectiveness of his own unit.

10.0.1. Developing a model

There are four different phases in the process of building a model: (1) Presenting the specifications of the model and formulating the hypothesis. (2) Collecting the data, estimating the parameters and the different relationships. (3) Verifying the information collected in phase two on the basis of theoretical a priori presentation, statistical calculation and other relevant estimates. This verification phase may lead either to rejection, or to partial rejection (which will necessitate a new formulation of the model), or to acceptance of the model. Acceptance will open the way to the next phase. (4) Applying the model to such goals as explaining behaviour, predicting conduct and policy-making.

In order to develop a model to evaluate the effectiveness of internal auditing in municipalities in Israel, standards of assessment are needed. In this research, the standards adopted by the Institute of Internal Auditors to evaluate the operations of an internal auditing department (the Standards - Appendix C) were used as benchmarks.

A list of criteria divided into five components, presumed to be influential in that evaluation, was prepared (Appendix D). The components were the: (1) Independence of the internal auditing unit (2) Competence of the internal auditing unit (3) Scope of work of the internal auditing unit (4) Performance of the internal auditing unit (5) Management of the internal auditing unit.

Fifteen hypotheses, three for each component, were formulated.

10.0.2. Validating the components and criteria of the model

The list of components and criteria was tested through a process of meetings in two stages. The first stage of meetings was held with representatives of major users of the internal auditing product. The users were asked to check the list and state whether in their opinion any component or criterion was missing or, on the other hand, if any of those listed were superfluous.

The same process was repeated in the second stage, but this time the meetings were held with representatives of the larger circle of users of the municipality internal auditing product.

Those meetings resulted in some slight alterations to the model. Some doubts were raised about the relevance of the component relating to the management of the internal auditing unit, in the context of the Israeli municipalities. Nonetheless, it was decided to leave this component for the time being and reconsider the issue after the collection of the data.

Based on that list of components and criteria (Appendix D), a self administered questionnaire of the Likert type was prepared (Appendix H). After different steps to ensure the validity and reliability of the questionnaire, including pilot testing, the final test was sent. The returned questionnaires provided the data for this research.

The high percentage of respondents that did not participate in the evaluation of the component of management of the internal auditing unit proved that this component was not relevant in the context of municipalities in Israel. Therefore, at this stage, four components of the model remained, and the three hypotheses (thirteen, fourteen, fifteen) related to the management of the internal auditing unit component, turned out to be obsolete.

A factor analysis was then carried out, to identify the components to which, the various responses received from each respondent could be referred. This yielded a new component, namely the implementation of corrective action following the internal auditing findings. The model of the research to evaluate the effectiveness of the internal auditing unit thus turned out to be based once more on five components the: (1) Independence of the internal auditing unit (independence) (2) Competence of the internal auditing unit (competence) (3) Scope of work of the internal auditing unit (scope of work) (4) Performance of the internal auditing unit (performance) (5) Implementation of corrective action following the internal auditing findings (implementation).

10.0.3. Evaluating the effectiveness of internal auditing

Using a six level scale, the respondents had to tick how strongly they agree/disagree with each statement in the questionnaire. A seventh option "not known/not available" could also be used. For each respondent, a set of answers related to the different statements corresponding to each component of the model was collected. As Peacock & Pelfrey (1991) suggested, the Likert type scale provided a mechanism for quantifying responses.

In the absence of any contrary indication, the same weight was given to each statement in each component and for each respondent.

The respondents were divided into five groups:
(1) Staff of the municipality internal auditing unit
(2) Councillors (3) Top management (4) Middle level management (5) Journalists covering municipality affairs.

The task of evaluating the effectiveness of the internal auditing unit was divided into the evaluation of the five components set out above.

10.0.4. Differences in perceived effectiveness between different groups of evaluators

Former investigators, such as Wright & Bargranoff (1995), who have compared the evaluation of the effectiveness of the internal auditing unit by the internal auditors and by others, have found that the internal auditors offer a higher evaluation. In this research the same situation was expected, for all components. This expectation was incorporated in hypotheses numbers: one (regarding independence), four (competence), seven (scope of work), and ten (performance).

The contrast analysis comparing the internal auditing respondents to all other respondents showed that for all

four of these components the evaluation by the respondents from internal auditing units was higher, as expected on all four hypotheses (with $p < .001$).

On the basis of a theoretical analysis presented in this study regarding power, perception and internal auditing in municipalities in Israel, it was expected that users of the municipality internal auditing product outside the municipality would offer a lower evaluation of the effectiveness of internal auditing in municipalities, by comparison with those within the municipality. This expectation was incorporated in hypotheses: two (independence), five (competence), eight (scope of work), and eleven (performance). Because of legal limitations, external official users could not take part in the empirical research. The only group external to the municipality that took part in the research comprised the journalists. The results of the empirical research, therefore, relate to the journalists only and cannot be extrapolated to all external users.

The contrast analysis comparing the journalists to all other respondents showed that for all four components the evaluation by the journalists were lower, as expected by the four hypotheses (with $p < .05$).

Performing the same contrast analysis on the fifth component (implementation), it was found that the journalists had, as expected, a lower evaluation (with $p < .001$). However, the contrast analysis did not confirm

that the municipality internal auditing respondents had the highest evaluation for that same component. In the author's view the reason that respondents from the municipality internal auditing unit do not offer a higher evaluation of this particular component of effectiveness is that they do not see this component as a direct part of their job. Still, one has to accept the implementation component in the model of effectiveness, since there is no sense in having excellent internal auditing reports with findings and recommendations, if the corrections needed are not implemented.

The other hypotheses were based on the expectation that auditees at different levels in the municipality would differ in their evaluations of the various components of effectiveness, on account of their different perspectives. This expectation was incorporated in hypotheses: three (independence), six (competence), nine (scope of work), and twelve (performance).

There were three auditee groups in the municipality: the councillors, the top management and the middle level management. Since the hypotheses concerned did not indicate specific directions as to the differences between those groups, post-hoc paired comparisons according to Scheffe were performed. In those analyses, the councillors' evaluations of the components of independence, scope of work and implementation were

found to be significantly lower than those of the top and middle level management ($p < .05$). In other words, the evaluation by the political representatives was found to be, on those three components, lower than that of the professionals. No significant differences were found between the top and middle level management. Also, no significant difference was found between the councillors from the opposition and those from the ruling coalition. One of the mayors who was asked to give his opinion on the results of the empirical test felt that the farther the respondent was from the internal auditing unit, the lower the evaluation would be, because of lack of involvement in the internal auditing process.

Hypotheses six (competence) and twelve (performance) were not confirmed since no significant differences were found regarding those two components between the councillors, the top management and the middle level management.

A different analysis was performed to investigate whether differences would be found between the respondents' evaluations and the population size of their municipality. The municipalities were divided into three population size categories: (1) up to 40,000 (2) between 40,000 to 140,000 (3) 140,000 and upward.

The mean values for all the five components used to evaluate effectiveness were lower among the respondents

in municipalities with a population up to 40,000 compared to the two other groups. This indicates a certain perceived relative weakness in the effectiveness of municipality internal auditing in small municipalities.

The only component for which a significant difference was found involving all three population size categories was performance, between the municipalities up to 40,000 and the two other groups. An explanation for these differences lies in the fact that in small municipalities the staff of the internal auditing unit is often limited to one person - the municipality internal auditor only. This influences performance, since the internal auditing unit does not have the advantage of a larger auditing staff which generally will have a better mix of skills.

Significant differences were also found between the respondents of municipalities up to 40,000 and those municipalities of 140,000 and upward, regarding the components of independence and scope of work. The mayors to whom the author has spoken implied that in big municipalities the stature of the municipality internal auditors and the size of their staff lend importance to the internal auditing unit. The unit is then perceived as more independent and as having a larger scope of work than in the case of municipalities with a population of up to 40,000.

With regard to implementation, a significant difference was found only between the respondents in municipalities with a population of up to 40,000 and those with a population between 40,000 to 140,000. A possible explanation lies in the fact that, in small municipalities, the evaluation of performance was lower. Since this research has found a positive correlation between performance and implementation, a lower performance would contribute to a lower implementation. Following the same logic, one might expect that a significantly higher evaluation of performance by respondents from the two other categories of municipalities should also lead to significantly higher evaluations of the implementation component for both categories. However, this is not the case for the municipalities with a population of 140,000 and upwards. These are the municipality internal auditing units that are supposed to be the "strongest" and perhaps the expectations of the respondents are higher for that reason. Once more the author points to the problem of perception and power. High status does not mean power and it is possible that high expectations when compared with the reality lead to a certain disappointment in the evaluation of the implementation of corrective action following the internal auditing findings. In the middle level category of municipalities, those with a population of between 40,000 and 140,000, the stature of

the municipality internal auditor is lower, the staff is smaller and the expectations are more moderate. This seems to be the reason why this category yielded the highest evaluation of implementation.

Using Pearson correlations for responses given by the municipality internal auditors in Section I of the questionnaire (Appendix H), significant correlation was found between the relative size of the municipality internal auditing budget - in relation to the total budget - and the independence score ($r = .34$; $p < .05$). Independence was also found to be significantly correlated with seniority, defined as the number of years that the municipality internal auditor has worked in internal auditing ($r = .42$; $p < .01$). The higher the percentage budget of the municipality's internal auditing unit, the higher the component of independence was perceived to be; and the higher the seniority of the municipality internal auditors, the higher their perceived independence. The stronger the municipality internal auditors feel their own position to be, whether because of a relatively larger budget for their units or because of their experience in their job, the more independent they perceive their internal auditing unit to be.

10.1. Conclusion

(1) Journalists and councillors, both representing the public, gave lower evaluations of the effectiveness of municipality internal auditing than the other respondent groups. This suggests that, in spite of its high status, municipality internal auditing does not fulfil the public's expectation of what Rozevitch in Interior (1989:210) called their task of being part of the system of checks and balances in relation to the mayor.

Contributory reasons are as follows:

- a) The municipality internal auditing depends greatly on the municipality management, in relation to its budget, the size and remuneration of its staff, and even the condition of the work facilities. In addition, the relationship between the mayors and the municipality internal auditors will very much influence the way that others in the municipality will regard the municipality internal auditing unit.
- b) It is not realistic to expect the municipality's internal auditing unit to audit a management level higher than its own. It is, therefore, doubtful whether the municipality internal auditing unit would investigate an operation directly involving the mayor.

c) Contrary to other internal auditing units in organisations, the municipality internal auditing unit has its annual report published. This creates high expectations from the public, which cannot be met given the way that municipality internal auditing units operate at present.

(2) Implementation of corrective action was evaluated as lower than the other components, by all respondent groups. This indicates a problem which has to be solved in order to improve the effectiveness of municipality internal auditing.

(3) The data analysis reveals a tendency for the municipality's internal auditing unit to be perceived as less effective in municipalities with a population of up to 40,000 than in bigger municipalities.

(4) From numerous meetings which the author had with holders of different offices both within and outside the municipality, it appears that:

- a) The audit committee does not play a major role.
The committee is composed of councillors, who generally lack an appropriate background and are driven mainly by political motives.
- b) The high number of different auditing establishments active in the municipality sphere

is detrimental to the objectives of auditing. The different auditing establishments include not only the municipality's own internal auditing unit but also the State Comptroller and the Ministry of the Interior. The latter is active in two domains: first, its own staff audits local authorities directly, in much the same way as the State Comptroller; and second, it employs CPA firms which prepare the municipalities' annual audit balance sheet. One mayor confided to the author his impression that the fact that the State Comptroller has assigned a team to audit his municipality for some months showed a lack of respect for the work performed by the municipality's own internal auditor.

- c) There is wide acceptance that quality assurance is needed in municipality internal auditing. Although some representatives of the State Comptroller and the Ministry of the Interior had mentioned that they were active in that direction, it is at best sporadic, without any long-term strategy. In addition, those two auditing establishments that are external to the municipality have disagreements of their own about the role each has to play, and show little mutual co-operation.

10.2. Recommendations

(1) In the present structure, there are high expectations of the municipality internal auditing unit, but the possibilities do not and cannot meet those expectations.

There can be two solutions. One is based mainly on lowering the expectations, the other on improving the possibilities to meet the expectations.

The solution of lowering expectations is based on having the municipality internal auditing unit act like any other internal auditing unit, accountable only to the management. The implications would be:

a) The municipality internal auditing report should not be made accessible to the public. Publishing the report raises expectations from the public that cannot be met and, in addition, creates bad feelings on behalf of the auditees.

As a matter of fact, the I.I.A. (Israel) has opposed the recommendation of the Adam Report, presented at the end of 1994, for internal auditing reports in the ministries of the central government be published after their presentation to the minister. The Adam Committee had been appointed by the central government in order to suggest improvements in the civil service. Their recommendation was

opposed by the I.I.A. (Israel) generally, and specifically by the internal auditors in the ministries of the central government. The reasons were given in the editorial of the (Israeli) Internal Auditor (1997:90) as follows: "The strength of internal auditing is its essence of being internal. Publishing its reports turns it into an external audit... There are reasons to believe that publishing reports in the newspaper would bring unfavourable reactions from superiors and from auditees, which could create obstacles to the internal auditing in future audits... The final results in that case would be to weaken internal auditing." (Translated from Hebrew).

- b) Criteria must be set up for providing appropriate working conditions for the municipality internal auditing unit. Those criteria should encompass the budget, staff numbers and salaries, so that the municipality internal auditing unit would not depend on any future possible auditee for the satisfactory continuation of its work. The Ministry of the Interior has started to work on such criteria, as was reported by Amrani (1996), but the work is not yet complete.

If, as seems to be the intention of the Ordinance, the municipality internal auditing unit is expected

to be more than any other internal auditing unit, then its organisational dependence must change to increase its possibilities, as will be recommended at the end of this section.

- (2) More effort needs to be invested on behalf of the municipality management to ensure that implementation of corrective action following the internal auditing findings is more effective.

An improvement in that component would generate, directly and indirectly, more effective municipality internal auditing. It would also correct deficiencies faster, and ultimately save public money.

- (3) In small municipalities, at present, the internal auditing staff comprises often just one person. Instead it is recommended here that a cluster of small municipalities should co-ordinate an internal auditing team which would work for them all. A larger internal auditing staff will have a better mix of skills. The same idea could be applied to local councils which in the near future will need to integrate internal auditing into their organisations.

- (4) It is crucial to incorporate quality assurance for municipality internal auditing. This, in fact, is

also required by the I.I.A. Standards in the management of the internal auditing unit.

- (5) It is recommended that the model for evaluating the effectiveness of internal auditing in municipalities in Israel be used for such evaluation within individual municipalities.

Such an evaluation, if performed, could be very instructive if a comparison is made between the different scores collected by the various groups of respondents (users of the internal auditing product) taking part in the evaluation. It could point out weak areas, help to characterise any problems, and ultimately facilitate measures to correct deficiencies regarding specific components or respondent groups.

- (6) In line with some of the recommendations mentioned above, and in order to overcome various problems that have been mentioned in the conclusion, it seems to the author that the effectiveness of municipality internal auditing could be improved by certain organisational and conceptual changes. At present, in addition to the internal auditing unit, there are different external auditors (quite apart from the CPA firms which mainly prepare the annual audit balance sheet) with no co-ordination between them. Instead, there could be one body responsible for internal auditing in all local authorities in

Israel. This body could be financed by all local authorities that would be required to set aside a certain percentage of their budget. This suggestion is in part inspired by the Audit Commission for local authorities operating in England.

The author believes that, without entering into the question of the merits of the balance of power between central and local government, there would be many advantages in having a single body, serving the needs of internal auditing in local authorities exclusively. Such a body could hire and train personnel and be responsible for continuing education programs. It would pay the salaries of internal auditors in local authorities and decide on promotion or even rotation of individuals between different local authorities. It would also be responsible for establishing quality assurance programs.

In such a structure, the municipality internal auditing unit would be professionally accountable to that body.

However, in order to create a positive attitude on behalf of the municipality, it is important that the municipality should have a part in the process of appointing its municipality internal auditor. This body would recommend candidates, from among whom the municipality would make its choice. This body could

also prove instrumental in strengthening the trend found in this study, of career internal auditors in municipalities in Israel.

In addition to providing for internal auditing in local authorities, this body could publish its own reports. It could produce an analysis on a national scale of the internal auditing reports referring to the different local authorities, and could point out any common problems that exist.

In such a situation, the annual internal auditing reports for each municipality would probably cover a wider range of topics than at present in relation to the mayors' operations, and would serve - as intended - as part of the system of checks and balances to the mayor.

If the trend is for decentralisation from the central government, then this body should report directly to the Knesset, though this is not the only possibility. This by itself will not improve the implementation of corrective action following the internal auditing findings. One may hope, however, that the municipality internal auditing unit's reports will have greater impact, and that there will be more pressure on the mayor to ensure that deficiencies are corrected.

That said, the author is aware that his recommendation has its own drawbacks and there are important pre-requisites for this idea to work. The main drawback may be that an auditor linked one way or another to an external body, might be seen by the different jobholders in the municipality as an external rather than internal auditor. Given this perception, some may be more reluctant to co-operate, and the problem may be exacerbated if the annual internal auditing report is seen as taking a tougher stance towards the municipality.

As to pre-requisites, there are various legislative needs. The Knesset has to approve changes in the legislation regarding internal auditing in municipalities, the State Comptroller's Office duties in relation to local government, the role of the Ministry of the Interior in the auditing of local government, and the definition, formation and operation of the new body suggested by this study.

The first reaction of all the parties mentioned above may be rejection of the idea because it limits the authority of each one of them. Still, the author believes that the idea has its merits, and that after a process of adaptation it can work to improve the effectiveness of internal auditing in the municipalities.

10.3. Suggestions for further research

At the completion of the present investigation, the following ideas suggest themselves for further research:

1.Relationships between internal auditor and auditees.

A number of studies have been made on relationships between internal auditors and their superiors and/or the external CPA auditors. Further research should be made into relationships between internal auditors and auditees. This could encompass auditees from different levels in the organisation and from different fields of activity.

As has been pointed out in this study, the closer the respondents are to the internal auditing operation, the higher they evaluate its effectiveness. It would be interesting to find out if further research yields the same pattern, and if it can be generalised.

2.Evaluating the effectiveness of internal auditing in other organisations

The same systematic approach used in this study could serve as a model for evaluating the effectiveness of internal auditing in other types of organisations.

3.Internal auditing as a career

In this study, internal auditors with greater seniority in internal auditing gave higher evaluations for the

independence component. Do they objectively have more independence because, for example, the organisation places more confidence in them, or is it a subjective feeling whereby they simply convince themselves that they are more independent? More research to check the effect of seniority on internal auditing and effectiveness at work could help decide if internal auditing as a career is desirable or not.

4.The use of audit committees in local government.

The impression which the author gained from his many meetings with different jobholders within and outside the municipality, was that the role of the audit committee was controversial. Further research could enlighten this topic and, if necessary, suggest ways to improve the situation. With no relation to the Israeli scene, Sharp and Bull (1992) have suggested that the chairperson and the majority of the committee members should be people outside the city management who possess competence and bring with them the objectivity, free of any political agendas, needed for the committee. Such ideas and others should be included and discussed in such research.

Appendix A: Statement of responsibilities of Internal
Auditing (1991)¹

The purpose of this statement is to provide in summary form a general understanding of the responsibilities of internal auditing. For more specific guidance, readers should refer to the *Standards for the Professional Practice of Internal Auditing*.

OBJECTIVE AND SCOPE

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. The members of the organization assisted by internal

¹ The *Statement of Responsibilities of Internal Auditors* was originally issued by The Institute of Internal Auditors in 1947. The current *Statement*, revised in 1990, embodies the concepts previously established and includes such changes as are deemed advisable in light of the present status of the profession.

auditing including those in management and the board of directors.

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditors should:

- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Appraise the economy and efficiency with which resources are employed.
- Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

RESPONSIBILITY AND AUTHORITY

The internal auditing department is an integral part of the organization and functions under the policies established by senior management and the board. The purpose, authority and responsibility of the internal auditing department should be defined in a formal written document (charter). The director of internal auditing should seek approval of the charter by senior management as well as acceptance by the board. The charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

Throughout the world internal auditing is performed in diverse environments and within organizations which vary in purpose size and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of the *Standards for the Professional Practice of Internal Auditing*, therefore, will be governed by the environment in which the internal auditing department carries out its assigned responsibilities. Compliance with the concepts enunciated by the *Standards for the Professional Practice of Internal Auditing* is essential before the

responsibilities of internal auditors can be met. As stated in the Code of Ethics, members of the Institute of Internal Auditors, Inc. and Certified Internal Auditors shall adopt suitable means to comply with the *Standards for the Professional Practice of Internal Auditing*.

INDEPENDENCE

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational status and objectivity.

The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities. The director of the internal auditing department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure a broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations.

Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal Auditors are not to subordinate their judgment on audit matters to that of others. Designing,

installing, and operating systems, are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

Appendix B: Definitions and abbreviations,
clarification

1. The following definitions are used for this study:

Authority: a public administrative agency or corporation having quasi-governmental powers and authorised to administer a revenue producing public enterprise. (Webster's Third New International Dictionary 1969)

Council: a local governing instrumentality - as a town, borough, city, county. (Webster's Third New International Dictionary 1969, - one of the definitions appearing under this title. - Z.H.)

Local Government: self government in local affairs by a political subdivision as distinguished from administration of the area by the central government (Webster's Third New International Dictionary 1969, - one of the definitions appearing under this title. - Z.H.)

Municipality: a' a primary urban political unit - as a town or a city - having corporate status and usually power of self government.

b) the governing body of such a unit.
(Webster's Third New International Dictionary 1969)

Municipality internal auditor: The head of the internal auditing department in the municipality.

2. The following abbreviation is used in this study:

I.I.A.: The Institute of Internal Auditors, Inc.
Altamonte Springs, Florida

Appendix C: Summary of General and Specific Standards for
the Professional Practice of Internal Auditing

100 INDEPENDENCE – INTERNAL AUDITORS SHOULD BE INDEPENDENT
OF THE ACTIVITIES THEY AUDIT.

110 **Organizational Status** – The organizational status
of the internal auditing department should be
sufficient to permit the accomplishment of its
audit responsibilities.

120 **Objectivity** – Internal auditors should be
objective in performing audits.

200 PROFESSIONAL PROFICIENCY – INTERNAL AUDITORS SHOULD BE
PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.

The Internal Auditing Department

210 **Staffing** – The internal auditing department
should provide assurance that the technical
proficiency and educational background of internal
auditors are appropriate for the audits to be
performed.

220 **Knowledge, Skills and Disciplines** – The internal
auditing department should possess or should
obtain the knowledge, skills and disciplines
needed to carry out its audit responsibilities.

230 **Supervision** – The internal auditing department
should provide assurance that internal audits are
properly supervised.

The internal auditor

240 **Compliance with Standards of Conduct** – Internal auditors should comply with professional standards of conduct.

250 **Knowledge, Skills and Disciplines** – The internal auditors should possess the knowledge, skills and disciplines essential to the performance of internal audits.

260 **Human Relations and Communication** – Internal auditors should be skilled in dealing with people and in communicating effectively.

270 **Continuing Education** – Internal auditors should maintain their technical competence through continuing education.

280 **Due Professional Care** – Internal auditors should exercise due professional care in performing internal audits.

300 **SCOPE OF WORK** – THE SCOPE OF INTERNAL AUDITING SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES.

310 **Reliability and Integrity of Information** – Internal auditors should review the reliability and integrity of financial and operating

information and the means used to identify, measure, classify, and report such information.

320 Compliance with Policies, Plans, Procedures, Laws and Regulations – Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance.

330 Safeguarding of Assets – Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

340 Economical and Efficient Use of Resources – Internal auditors should appraise the economy and efficiency with which resources are employed.

350 Accomplishment of Established Objectives and Goals for Operations or Programs – Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

400 PERFORMANCE OF AUDIT WORK – AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP.

410 Planning the Audit – Internal auditors should plan each audit.

420 **Examining and Evaluating Information** – Internal auditors should collect, analyze, interpret, and document information to support audit results.

430 **Communicating Results** – Internal auditors should report the results of their audit work.

440 **Following up** – Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

500 **MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT – THE DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE INTERNAL AUDITING DEPARTMENT.**

510 **Purpose, Authority and Responsibility** – The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.

520 **Planning** – The director of internal auditing should establish plans to carry out the responsibilities of the internal auditing department.

530 **Policies and Procedures** – The director of internal auditing should provide written policies and procedures to guide the audit staff.

540 **Personnel Management and Development** – The director of internal auditing should establish a

program for selecting and developing the human resources of the internal auditing department.

550 **External Auditors** - *The director of internal auditing should coordinate internal and external audit efforts.*

560 **Quality Assurance** - *The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.*

Appendix D: Suggested components and criteria for the evaluation of the effectiveness of the internal auditing unit in municipalities

1. Independence:
 - a) Organisational status
 - b) Objectivity
2. Competence:
 - a) Appropriate educational background (individual)
 - b) Knowledge, skills, disciplines (department)
 - c) Properly supervised internal audits
 - d) Mastering techniques and procedures of internal audit
 - e) Skilled in written and oral communication
 - f) High honesty, objectivity, diligence and loyalty
 - g) Recommend improvement to correct defects

3. Scope of work:
- a) Reliability and integrity of information
 - b) Compliance with policies, plans, procedures, laws and regulations
 - c) Safeguarding of assets
 - d) Economical and efficient use of resources
 - e) Accomplishment of established objectives and goals for operations or programs
 - * f) Maintaining an honest, objective and fair ongoing process in the decision making

* was added after the first phase of the meetings

4. Performance:
- a) Planning the audit
 - b) Examining and evaluating information
 - c) Communicating results
 - d) Following up (ascertain that proper action is taken on report audit findings)

5. Management of the internal auditing department:
- a) Statement of purpose, authority and responsibility
 - b) Audit work planning
 - c) Policies and procedures
 - d) Personnel management and development
 - e) Co-ordinating internal and external audit efforts
 - f) Quality assurance

Appendix E: Data on Municipalities in Israel

General information¹

In 1995, the total population of Israel was 5,619,000: 74% of the population in municipalities, 16% in local councils and 10% in regional councils.

The municipalities have a population ranging from 20,000 to more than 500,000.

Specifications on some of the big municipalities

<u>Municipalities</u>	<u>Population²</u>	<u>Full time positions³</u>
Jerusalem	591,000	6,079
Tel-Aviv	356,000	9,050
Haifa	252,000	4,526
Holon	164,000	1,929
Petach Tikva	153,000	2,118
Netanya	148,000	1,894
Ramat Gan	122,000	1,485
Herzelia	84,000	1,098
Kfar Saba	69,000	957
Raanana	59,000	624

¹ From Statistical Abstract of Israel (1996:68) (The data refer to 1995 - Z.H.)

² Ibid. (1996:70-72)

³ From Local Authorities in Israel 1994 (1996:149-150) (The part time positions were aggregated in the original table - Z.H.)

Number of internal auditors¹

The number of internal auditors in municipalities varies from the three big cities where there are about ten in each, to other cities where there are less and often between one and two.

Total income, expenditures and deficit of local authorities by municipal status²

	<u>Income</u>	<u>Expenditure</u>	<u>Deficit</u>
<u>Municipalities</u>	10,443,000,000	11,249,000,000	-806,000,000
<u>Local councils</u>	2,693,000,000	3,014,000,000	-321,000,000
<u>Regional councils</u>	1,869,000,000	1,979,000,000	-83,000,000
			-

Joint authorities³

In 1992, there were 19 joint authorities for fire fighting services, 7 such federations for sewage and sanitary services, 3 such federations for veterinarian services, 6 for the environment services and one for water supply.

¹ Information from people working in internal auditing in local authorities.

² From Statistical Abstract of Israel (1996:456-457)

(The data refer to 1993. All amounts are in I.S. (Israeli shekels). The average representative exchange rate in 1993 in US dollars was \$1 = 2.89 I.S.)

³ From Statistical Abstract of Israel (1995:575)

(There was no updated data regarding this item in the Statistical Abstract of Israel 1996 - Z.H.)

Professor Georges M Selim BCom MCom PhD FIIA
Director



April 9, 1996

Frobisher Crescent
Barbican Centre
London EC2Y 8HB

Switchboard: 0171-477 8000
Direct Line: 0171-477
Fax: 0171-477 8880

Dear Sir/Madam

I am writing to ask for your cooperation in a research survey being conducted by Mr. Zvi Haimon -- one of our Ph.D. students.

The City University Business School is one of the largest in the U. K. It is located in the City of London, with close contacts to the City's many institutions. A recent survey placed the City University Business School among the ten best in the U. K.

Dr. Rozevitch of Bar Ilan University in Israel and myself are supervising the study.

In his research, Mr. Haimon suggests a model to evaluate the effectiveness of municipality internal auditing in Israel. The model, inspired by the Standards of the Institute of Internal Auditors, is based on five criteria: a) Independence b) Competence c) Scope of Work d) Performance e) Management of the Internal Auditing Department.

The respondents invited to take part in the research belong to different groups of "users" of the municipality internal auditing product, with a direct or indirect relationship to its services.

In the questionnaire, there might be questions that are not applicable to you in your capacity or to which you do not know the answer. In that case, please tick the appropriate box in the last column.

You will find enclosed herewith:

The questionnaire to be completed.

A collect paid envelope in which to return the questionnaire.

A prompt response would be extremely helpful. You may add your name and address on the material you send back, but you do not have to. If you do, this will make it easier to send you the results of the research when they will be available.

The data, information and any comments collected or transmitted are strictly used for research purposes only. Individual responses will be kept in strict confidence. Only group data will be reported.

For any further questions regarding this questionnaire, please contact Mr. Zvi Haimon:

P.O. Box 53004, Tel Aviv 61530, Fax 03-6430269 or Phone 03-6417794.

The survey has been pilot tested and should take approximately 15-20 minutes to complete.

Your response to this test would be extremely valuable and would contribute to the success of this important research. I would like to take this opportunity to thank you in advance for your participation and effort.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read "G. Selim", written over a horizontal line.

Prof. Georges Selim

AR-ILAN UNIVERSITY

Department of Economics and
Business Administration



אוניברסיטת בר-אילן

המחלקה לכלכלה ולמינהל עסקים

900 Ramat-Gan, Israel

טלפון 5318345-7
TELEX 342290 BARIL IL
פקס. מס' 344622 FAX

רמת-גן 52900

כ"ה ניסן תשנ"ו

14.4.1996

א. ג. נ,

הריני לבקש את השתתפותך במילוי שאלון מחקר בנושא ביקורת פנימית שעורך מר צבי חימון, סטודנט לתואר שלישי (דוקטוראט) באוניברסיטת סיטי יוניברסיטי (City University) בלונדון. בית הספר לנהל עסקים בסיטי יוניברסיטי הוא אחד הגדולים באנגליה, מדורג בין עשרת הטובים במדינה, ויש לו התמחות מיוחדת בנושא ביקורת פנימית. פרופ' סלים, מבית הספר לנהל עסקים בסיטי יוניברסיטי, הוא מומחה בעל שם עולמי בתחום הביקורת הפנימית ומשמע כסגן נשיא עולמי של לשכת האס של המבקרים הפנימיים ומראשי הפדרציה האירופית לביקורת. פרופ' סלים ואנוכי משמשים כמנחים למחקר זה. במחקר, מר חימון מציע מודל להערכת יעילות הביקורת הפנימית בעיריות בישראל (משרד מבקר העירייה).

הנשאלים במחקר משתייכים לקבוצות "משתמשים" שונות עם קשר ישיר או עקיף לשרותי משרד מבקר העירייה.

בשאלון יתכנו שאלות שאינן ישימות לך בתפקידך או שהתשובה להן אינה ידועה לך. במקרה זה, נא סמך את המשבצת המתאימה בעמודה האחרונה.

למכתב זה מצורפים:

השאלון אותו הנך מתבקש/ת למלא.

מעטפת דואר חוזר ממוענת, אין צורך להוסיף בול.

תשובה מהירה תסייע רבות. הנך רשאי/ת לציין את שמך וכתובתך על החומר שתשלח/י חזרה, אך אין הכרח לציין זאת. ציון הפרטים יאפשר משלוח תוצאות המחקר אליך, כאשר התוצאות יעמדו לרשותנו. הנתונים, המידע וכל הערה שנאספת או נמסרת הנם למטרות המחקר בלבד. תשובות נפרדות של אנשים בודדים ישמרו בסודיות בהקפדה יתרה. רק נתונים של קבוצות ידווחו במחקר.

לכל שאלה נוספת בעניין השאלון, נא להתקשר למר צבי חימון ת.ד. 53004 תל אביב 61530, פקס: 03-6430269, או טלפון: 03-6417794

לפי דיווחי המשתתפים במחקר הראשוני (pilot test) שערכנו, מילוי השאלון אורך כ- 15-20 דקות.

תשובתך לשאלון חשובה לנו מאוד להצלחת המחקר. אני מבקש להודות לך מראש על השתתפותך ועל הרצון הטוב לסייע במחקר חשוב זה.

בכבוד רב,

ד"ר שמעון רביץ

מרצה באוניברסיטת בר אילן ובאוניברסיטת חיפה
בנושאי חשבונאות, מינהל ציבורי וביקורת פנימית

A Questionnaire on Internal Auditing in Municipalities in Israel

Section I: The following demographic questions have been included to process the data according to the different appropriate groups.

Please answer by filling in the blank or ticking ☒ as appropriate.

1. Please indicate your occupation _____
and title _____.

If you are a municipality council member: *please tick ✓ the box* ☐.

Tick whether in the municipality council you are from the: ☐ *coalition or*
☐ *opposition,*

Then proceed to question No. 3.

2. Assuming -- for the purpose of the study -- that the management of your section is divided into three levels, where would you place yourself.

- ☐ the top level
☐ the middle level
☐ the low level

If you are not connected to a specific municipality: *please continue to section II, p. 3.*

3. What is the population of your municipality:

- ☐ less than 40,000
☐ 40,001 to 70,000
☐ 70,001 to 100,000
☐ 100,001 to 140,000
☐ 140,001 or more

If you are not the municipality internal auditor: *please proceed to Section II, p. 3.*

4. How large is your professional internal auditing staff? ____
5. Has your internal auditing staff been increased during the last three years?
- ☐ No
☐ Yes - If yes, by how many? ____
6. Is the internal auditing staff involved with participation in professional organisations?
- ☐ No
☐ Yes - If yes, how many staff members? ____

7. Is the internal auditing staff encouraged to participate in continuing education programs?
- ☐ No
- ☐ Yes - If yes, during the last two years, how many participated in such a program? ____
8. What is the total budget of the municipality? ____
9. What is the total budget of the municipality internal auditing? ____
10. Do you have a budget to hire external professional experts to assist you, if necessary?
- ☐ No
- ☐ Yes - If yes, how many times did you use this help in the last 24 months? ____
11. Who, in fact, decides what items will be included in your annual internal auditing work plan? You may select more than one.
- ☐ The mayor
- ☐ The audit committee
- ☐ Yourself
- ☐ Other (please specify) ____
12. Please indicate the type of audits your department performs. You may select more than one.
- ☐ Financial audits
- ☐ Compliance audits
- ☐ Operational or performance audits
- ☐ Special management requests
- ☐ Other (please specify) ____
13. How many years do you work as the municipality internal auditor in your municipality? ____
14. How many years have you been working in internal auditing in general? ____



Section II: Activities related to the effectiveness of internal auditing in the municipality

A list of activities that relate to the effectiveness of municipality internal auditing are listed below. You are asked to evaluate the following items on a scale from 1 to 6, the value of 1 being "complete disagreement" and 6 being "complete agreement". To evaluate the municipality internal auditing activity, you need to tick the appropriate boxes.

For the purpose of the research, you may find some questions which seem quite similar.

Please evaluate each item. Use the not known / not available boxes only for those items that you have no information about.

Part 1. The following items are related to the independence of internal auditing in the municipality

	Not known / not available						
1. Completely disagree	_____	_____	_____	_____	_____	_____	_____
2. Strongly disagree	_____	_____	_____	_____	_____	_____	_____
3. Disagree	_____	_____	_____	_____	_____	_____	_____
4. Agree	_____	_____	_____	_____	_____	_____	_____
5. Strongly agree	_____	_____	_____	_____	_____	_____	_____
6. Completely agree	_____	_____	_____	_____	_____	_____	_____

1. The organizational status of the municipality internal auditor is adequate for the fulfillment of his/her job.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
2. The internal auditing staff carry out their work freely and objectively.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
3. The internal auditing staff has access to all information, employees or elected members in the municipality, considered pertinent in the conduct of an audit.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
4. All areas within the municipality are allowed internal auditing access.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
5. The internal auditing staff assumes operating responsibilities to design or operate systems.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
6. The internal auditing staff operation does not encounter any situation where conflict of interest is present.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
7. The mayor decides what subjects will or will not appear in the work plan of the internal auditing unit.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A

Part 2: The following items are related to the competence of internal auditing in the municipality

	Not known / not available						
	1. Completely disagree	2. Strongly disagree	3. Disagree	4. Agree	5. Strongly agree	6. Completely agree	
8. The internal auditing staff is articulate.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
9. The internal auditing unit possesses the knowledge, skills and disciplines needed to carry out its audit responsibilities.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
10. The internal auditors maintain satisfactory relationships with auditees.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
11. The internal auditors convey effectively, in oral and written communication, audit objectives, evaluations, conclusions and recommendations.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
12. The internal auditors maintain high standards of honesty and objectivity.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
13. The municipality internal auditing unit recommends improvements to correct deficiencies or irregularities.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A



Part 3: The following items are related to the scope of work of internal auditing in the municipality

	Not known / not available						
	1. Completely disagree	2. Strongly disagree	3. Disagree	4. Agree	5. Strongly agree	6. Completely agree	
14. The scope of internal auditing includes the evaluation of the adequacy of the municipality's system of internal control.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
15. Internal auditors examine the reliability and integrity of information.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
16. Internal auditors check whether the systems operating in the municipality ensure compliance with policies, plans, procedures, laws and regulations.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
17. The internal auditing staff review the systems used for safeguarding of municipality's assets.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
18. Internal auditing staff appraise the economy and efficiency with which resources are employed.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
19. Internal auditing staff review operations or programs to ascertain whether results are consistent with established objectives and goals.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
20. The internal auditing unit ascertains that an honest, objective and fair ongoing process is maintained in the decision making in the municipality and that no irregularities or personal benefits are involved.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
21. The internal auditing unit applies the same rules for all levels of the municipality.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
22. The municipality internal auditing unit does not encompass the mayor's own operations.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A

Part 4: The following items are related to the performance of internal auditing in the municipality

	Not known / not available	1	2	3	4	5	6
1. Completely disagree							
2. Strongly disagree							
3. Disagree							
4. Agree							
5. Strongly agree							
6. Completely agree							
23. The municipality internal auditing reports are issued in a clear, concise and timely manner.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
24. The municipality internal auditing reports identify such elements as audit objectives, scope, background, results and recommendations.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
25. Most reports presented by the municipality internal auditor tackle subjects of major importance to the municipality.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
26. The internal auditing unit develops appropriate audit plans for established audit objectives.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
27. The internal auditing unit maintains a follow-up and reports whether corrective actions were taken following deficiencies and recommendations indicated by the unit.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
28. The speed of corrective action on the findings of the municipality internal auditing is satisfactory.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A
29. There are no unnecessary delays in taking appropriate corrective action on reported audit findings.	☐	☐	☐	☐	☐	☐	☐
		6	5	4	3	2	1 N/A



Part 5: The following items are related to the management of internal auditing in the municipality

	Not known / not available						
		1. Completely disagree					
		2. Strongly disagree					
		3. Disagree					
		4. Agree					
		5. Strongly agree					
		6. Completely agree					
30. The internal auditing department coordinates activities with the municipality external auditors.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
31. The internal auditing department has an external review program to objectively determine the quality of its operation.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
32. The internal auditing staff is involved with participation in professional organizations.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
33. The internal auditing staff is encouraged to participate in continuing education programs,	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
34. The municipality internal auditing department maintains a written policy and procedures manual.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A
35. Performance appraisals ensure that audit personnel promotions and dismissals are consistent with the results of evaluators.	☐	☐	☐	☐	☐	☐	☐
	6	5	4	3	2	1	N/A

Name (optional) _____

Address (optional) _____

Thank you very much for your cooperation.

Please fold the questionnaire package in the stamped envelope and send it in.

שאלון על הביקורת הפנימית בעיריות בישראל

חלק ראשון: השאלות הבאות המתייחסות לנתוני רקע נכללו כדי לאפשר את עיבוד הנתונים בהתאם לקבוצות הנשאלים המתאימות השונות.

נא לענות על ידי השלמת הפרטים בשורה המתאימה או על ידי סימון המשבצת המתאימה.

1. נא ציין/י את עיסוקך/תפקידך _____
ותוארך _____.
אם הנך חבר/ת מועצת העירייה: נא לסמן ✓ את המשבצת ☐.
סמן/י אם הנך משתייך/ת במועצת העירייה ל ☐ קואליציה או ל ☐ אופוזיציה.
נא לעבור לשאלה מס' 3.
2. בהנחה - לצורך המחקר כי ישנם שלשה דרגי ניהול בלבד ביחידה בה את/ה פועל/ת, היכן היית ממקם/ת את עצמך.
☐ הדרג העליון
☐ הדרג האמצעי
☐ הדרג התחתון
אם אינך קשור/ה לעירייה ספציפית: נא לעבור לחלק השני, עמ' 3.
3. מהי אוכלוסיית העירייה אליה הנך קשור/ה.
☐ פחות מ- 40,000
☐ מ- 40,001 עד 70,000
☐ מ- 70,001 עד 100,000
☐ מ- 100,001 עד 140,000
☐ 140,001 ויותר
אם אינך מבקר/ת העירייה: נא לעבור לחלק השני, עמ' 3.
4. מהו מספר העובדים ביחידת הביקורת בעירייה כיום (כולל המבקר)? _____
5. האם בשלוש שנים האחרונות גדל צוות יחידת הביקורת שלך?
☐ לא
☐ כן - אם כן, בכמה? _____
6. האם צוות עובדי הביקורת משתתפים בפעילות ארגונים מקצועיים?
☐ לא
☐ כן - אם כן, כמה מעובדי הביקורת? _____

7. האם מעודדים את צוות הביקורת להשתתף בהשתלמויות מקצועיות?
☐ לא
☐ כן - אם כן, כמה אנשי צוות השתתפו בהשתלמויות כאלו בשנתיים האחרונות? _____
8. מהו התקציב הכולל של העירייה? _____
9. מהו התקציב הכולל של משרד מבקר העירייה? _____
10. האם עומד לרשותך תקציב להעסקת מומחה חיצוני, אם הנך נזקק/ת לסיוע זה?
☐ לא
☐ כן - אם כן, כמה פעמים השתמשת בסיוע זה בשנתיים האחרונות? _____
11. מי, למעשה, מחליט אלו נושאים יכללו בתכנית הביקורת השנתית? את/ה רשאי/ת לסמן יותר מאחד.
☐ ראש העיר
☐ ועדת הביקורת
☐ את/ה (מבקר/ת העירייה)
☐ אחר (נא לפרט) _____
12. נא לציין איזה סוגי ביקורת משרדך מבצע. את/ה רשאי/ת לסמן יותר מאחד.
☐ ביקורת פיננסית
☐ ביקורת ניהולית
☐ ביקורת תפעולית
☐ בקשות מיוחדות מצד ה"הנהלה" (ראש העיר/ ועדת בקורת/ חברי מועצה)
☐ אחר (נא לפרט) _____
13. כמה שנים הנך עובד/ת כמבקר/ת העירייה בעירייה זו? _____
14. כמה שנים הנך עובד/ת בסך הכל בביקורת פנימית? _____

חלק שני: פעילויות המיוחסות ליעילות הביקורת הפנימית בערירות

רשימת פעילויות המיוחסות ליעילות הביקורת הפנימית בערירות (משרד מבקר העירייה) רשומות מטה. הנך מתבקש/ת להעריך את הסכמתך למשפטים המופיעים בהמשך באמצעות דרג מ-1 עד 6, הערך 1 מציין "אי הסכמה מוחלטת" עם הנאמר במשפט והערך 6 מציין "הסכמה מוחלטת". כדי להעריך את פעילות משרד המבקר, הנך מתבקש/ת לסמן את המשבצות המתאימות, משבצת אחת בלבד לכל משפט. משיבים שמתוקף תפקידם עומדים מול ערירות שונות, מתבקשים גם הם לסמן משבצת אחת בלבד שתהווה מעין שיקלול התרשמותם הכוללת באותו נושא. יתכן שמספר שאלות יראו לך מאוד דומות, אולם למטרות המחקר הננו מבקשים להעריך כל משפט. השתמש/י במשבצת "לא ידוע/ לא ישים" רק באותם מקרים שעבורם אין לך גביהם מידע.

בתשובתם המשיבים מביעים את דעתם האישית בלבד ולא מייצגים דעה או מדיניות רשמית כלשהי.

פרק 1. הנושאים הבאים מתייחסים לאי תלות משרד מבקר העירייה

	לא ידוע/לא ישים	1. לגמרי לא מסכים	2. מאוד לא מסכים	3. לא מסכים	4. מסכים	5. מאוד מסכים	6. לגמרי מסכים
1. הסטטוס הארגוני של מבקר העירייה מתאים לצרכים לבצוע עבודתו.	☐	☐	☐	☐	☐	☐	☐
2. צוות הביקורת מבצע את עבודתו בצורה חופשית ואובייקטיבית.	☐	☐	☐	☐	☐	☐	☐
3. לצוות הביקורת גישה לכל מידע, עובד או נבחר בעירייה, אשר בהתחשב לעניין חשובים לעריכת הביקורת.	☐	☐	☐	☐	☐	☐	☐
4. כל תחום מפעולות העירייה הוא בר גישה לביקורת.	☐	☐	☐	☐	☐	☐	☐
5. צוות הביקורת נושא באחריות בצוע לתכנון או הפעלת מערכות.	☐	☐	☐	☐	☐	☐	☐
6. הביקורת הפנימית אינה נתקלת כלל במצב של ניגוד אינטרסים במהלך פעילותה.	☐	☐	☐	☐	☐	☐	☐
7. ראש העיר מחליט אלו נושאים יכללו או לא יכללו בתכנית העבודה של יחידת הביקורת.	☐	☐	☐	☐	☐	☐	☐

פרק 2. הנושאים הבאים מתייחסים למיומנות המקצועית של משרד מבקר העירייה

לא ידוע/לא ישים 1. לגמרי לא מסכים 2. מאוד לא מסכים 3. לא מסכים 4. מסכים 5. מאוד מסכים 6. לגמרי מסכים							
☐	☐	☐	☐	☐	☐	☐	8. צוות הביקורת מתבטא בבהירות.
ל/י	1	2	3	4	5	6	
☐	☐	☐	☐	☐	☐	☐	9. ליחידת הביקורת הידע, המיומנות ותחומי המקצוע הנדרשים לבצע את משימת הביקורת המוטלות עליה.
ל/י	1	2	3	4	5	6	
☐	☐	☐	☐	☐	☐	☐	10. לצוות הביקורת קשרים נאותים עם המבוקרים.
ל/י	1	2	3	4	5	6	
☐	☐	☐	☐	☐	☐	☐	11. צוות הביקורת מעביר בצורה יעילה, הן בעל פה והן בכתב את מטרות הביקורת, הערכות, מסקנות והמלצות.
ל/י	1	2	3	4	5	6	
☐	☐	☐	☐	☐	☐	☐	12. צוות הביקורת מקפיד על סטנדרטים גבוהים של יושר ואובייקטיביות.
ל/י	1	2	3	4	5	6	
☐	☐	☐	☐	☐	☐	☐	13. יחידת הביקורת ממליצה על שיפורים לתיקון ליקויים או סטיות.
ל/י	1	2	3	4	5	6	

פרק 3. הנושאים הבאים מתייחסים להיקף עבודת משרד מבקר העירייה

☐ לא ידוע/לא ישים ☐ 1. לגמרי לא מסכים ☐ 2. מאוד לא מסכים ☐ 3. לא מסכים ☐ 4. מסכים ☐ 5. מאוד מסכים ☐ 6. לגמרי מסכים 14. היקף הביקורת כולל את הערכת הלימות מערכת הבקרה בעירייה.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 15. צוות הביקורת בודק אמינות ושלמות מידע. 16. צוות הביקורת בודק אם המערכות הפועלות בעירייה מבטיחות התאמה למדיניות, תוכניות, נהלים, חוקים ותקנות.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 17. צוות הביקורת סוקר את המערכות לשמירת נכסי העירייה.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 18. צוות הביקורת מעריך את החסכון והיעילות בהם משתמשים במשאבים.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 19. צוות הביקורת סוקר פעולות או תכניות לוודא אם התוצאות הינן עקביות עם היעדים שנקבעו והמטרות.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 20. הביקורת מודאת שתהליך קבלת ההחלטות המתמשך בעירייה מבוצע ללא משוא פנים, באובייקטיביות ובהתאם לכללי מינהל ציבורי תקין וכן שחריגות או טובות הנאה אישיות אינן מעורבות בתהליך קבלת ההחלטות.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 21. הביקורת מפעילה את אותם הכללים בכל הרמות של העירייה.						
☐ 7/י	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6
☐ 7/י ☐ 7/י 22. הביקורת אינה כוללת בטיפול את פעולותיו של ראש העיר.						

פרק 4. הנושאים הבאים מתייחסים לבצוע עבודת משרד מבקר העירייה

לא ידוע/לא ישים 1. לגמרי לא מסכים 2. מאוד לא מסכים 3. לא מסכים 4. מסכים 5. מאוד מסכים 6. לגמרי מסכים ☐ לא ידוע/לא ישים ☐ 1. לגמרי לא מסכים ☐ 2. מאוד לא מסכים ☐ 3. לא מסכים ☐ 4. מסכים ☐ 5. מאוד מסכים ☐ 6. לגמרי מסכים							23. דו"חות הביקורת מופצים בצורה ברורה, תמציתית ותוך פרק זמן סביר.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	24. דו"חות הביקורת מצביעים על יעדי הביקורת, היקף העבודה, רקע, תוצאות והמלצות.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	25. רב הדו"חות המוגשים על ידי הביקורת מתמחדים עם נושאים בעלי חשיבות רבה לעירייה.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	26. צוות הביקורת מפתח תכניות בקורת המתאימות ליעדי בקורת מוסכמים.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	27. הביקורת עורכת מעקב ומדווחת באם תוקנו ליקויים בעקבות ממצאים והמלצות שהועלו על ידי הביקורת.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	28. המהירות בה מתקנים ליקויים, בעקבות ממצאי הביקורת, משביע רצון.
☐ לא ידוע/לא ישים	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	29. איו דחיות שאינן מחויבות המציאות במהלך תיקון הליקויים בעקבות ממצאי בקורת.

פרק 5. הנושאים הבאים מתייחסים לניהול משרד מבקר העירייה

☐	☐	☐	☐	☐	☐	☐	לא ידוע/לא ישים
☐	☐	☐	☐	☐	☐	☐	1. לגמרי לא מסכים
☐	☐	☐	☐	☐	☐	☐	2. מאוד לא מסכים
☐	☐	☐	☐	☐	☐	☐	3. לא מסכים
☐	☐	☐	☐	☐	☐	☐	4. מסכים
☐	☐	☐	☐	☐	☐	☐	5. מאוד מסכים
☐	☐	☐	☐	☐	☐	☐	6. לגמרי מסכים

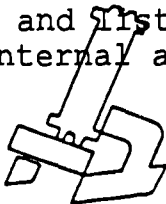
☐	☐	☐	☐	☐	☐	☐	30. משרד המבקר מתאם את פעולותיו עם המבקרים החיצוניים של העירייה.
☐	☐	☐	☐	☐	☐	☐	31. גורם חיצוני בוחן מבחינה אובייקטיבית את איכות פעולות משרד מבקר העירייה.
☐	☐	☐	☐	☐	☐	☐	32. צוות הביקורת משתתף בארגונים מקצועיים.
☐	☐	☐	☐	☐	☐	☐	33. צוות הביקורת מקבל עידוד להשתתף בהשתלמויות מקצועיות.
☐	☐	☐	☐	☐	☐	☐	34. משרד מבקר העירייה מחזיק בספר המתאר את המדיניות והנהלים של משרד מבקר העירייה.
☐	☐	☐	☐	☐	☐	☐	35. הערכות העובדים מבטיחות כי קידום עובדי הביקורת או הפסקת עבודה נעשים בתאום עם תוצאות המעריכים.

שם (אין חובה): _____
 כתובת (אין חובה): _____

תודה רבה עבור שתוף הפעולה.
נא לקפל את דפי השאלון לתוך המעטפה המצורפת ולשלוח בדואר
ללא בול.

AR-ILAN UNIVERSITY

Department of Economics and
Business Administration



אוניברסיטת בר-אילן

המחלקה לכלכלה ולמינהל עסקים

900 Ramat-Gan, Israel

טלפון 5318345-7
TELEX 342290 BARIL IL
פ.קס. מס' 344622 FAX

רמת-גן 52900

כ"ה ניסן תשנ"ו
14.4.1996

לכבוד

«Title» «FirstName» «LastName»

מבקר עיריית «City»

עיריית «City»

«Address»

«City» «PostalCode»

ל«Title» «LastName» שלום רב,

מצ"ב שאלוני מחקר בנושא הערכת יעילות הביקורת הפנימית בעיריות בישראל (משרד מבקר העיריה). המחקר נערך ע"י מר צבי חימון- קולגה למקצוע, במסגרת עבודת דוקטוראט, באוניברסיטת סיטי יוניברסיטי (City University) בלונדון. בית הספר למנהל עסקים בסיטי יוניברסיטי הוא אחד הגדולים באנגליה, מדורג בין עשרת הטובים במדינה, ויש לו התמחות מיוחדת בנושא ביקורת פנימית. פרופ' סלים, מבית הספר למנהל עסקים בסיטי יוניברסיטי, הוא מומחה בעל שם עולמי בתחום הביקורת הפנימית ומשמש כסגן נשיא עולמי של לשכת האם של המבקרים הפנימיים ומראשי הפדרציה האירופית לביקורת. פרופ' סלים ואנוכי משמשים כמנחים למחקר זה. עבודת המחקר חוקרת את הנושא לפי קבוצות נשאלים שונות. למיטב ידיעתי זו הפעם הראשונה שנערכת עבודה אקדמית ברמה ובעומק כזה בישראל בנושא הביקורת הפנימית בעיריות. הנושא חשוב גם למבקרי העיריות עצמם ונתוח הנתונים שיתקבלו, שיעמוד גם לרשות מבקרי העיריות, יוכל לסייע בקידום עבודת המבקר בעיריה.

הקושי הגדול בהצלחת מחקרים מסוג זה טמון בהשגת אחז גבוה של משיבים לכל סוגי קבוצות הנשאלים. הסיוע שלך דרוש מאוד להצלחת המחקר בקבלת תשובות גם ממך וגם מהנשאלים האחרים בעיריה.

בכל מעטפה מצוי שאלון, מכתבים מהמנחים ומעטפת דואר חוזר ממוענת לחוקר ללא צורך בבול. נודה מאוד אם תוכל להעביר את המעטפות השונות לבעלי התפקידים המופיעים ברשימה המצורפת תוך הוספת ציון שמם על המעטפה, עם התייחסות אישית שלך. כמו כן נודה אם תוכל לבצע מצידך בדיקה חזרת כעבור שבועיים, לוודא כי בעלי התפקידים אכן שלחו את השאלונים לחוקר. פעולות אלה שלך ודאי יתרמו לקבלת אחז משיבים גבוה.

ערכנו שאלון מחקר ראשוני (pilot test) במספר עיריות. באותו מחקר ראשוני התברר כי מילוי השאלון אורך כ- 15-20 דקות.

קבלת התשובות במהירות האפשרית תסייע רבות לקידום המחקר. בהערכה רבה מראש עבור שתוף הפעולה.

בכבוד רב,

ד"ר שמעון רזביץ

מרצה באוניברסיטת בר אילן ובאוניברסיטת חיפה
בנושאי חשבונאות, מינהל ציבורי וביקורת פנימית

רשימת בעלי התפקידים בעירייה המצויים בקבוצת הנשאלים:

Job holders in the municipality that are part of the respondent groups

- | | |
|---|---|
| ☐ עובדי ביקורת נוספים (אם יש) במשרד המבקר | ☐ מבקרת העירייה |
| <i>Other auditing staff (if there is) in the municipality internal auditing unit</i> | <i>municipality internal auditor</i> |
| ☐ מנכ"ל/ית העירייה. אם אין, מזכיר/ת העיר | ☐ ראש העיר |
| <i>General director (if non existent, the municipality secretary)</i> | <i>Mayor</i> |
| ☐ חברת ועדת הביקורת מהאופוזיציה בעירייה - רצוי יו"ר הוועדה | ☐ חברת ועדת הביקורת מהקואליציה בעירייה |
| <i>Member of the audit committee from the opposition in the municipality - preferably the chairman.</i> | <i>Member of the audit committee from the coalition in the municipality</i> |
| ☐ ראש מינהל ההנדסה | ☐ ראש מינהל החינוך |
| <i>Head of engineering</i> | <i>Head of Education</i> |
| ☐ מנהל/ת מינהל ההנדסה | ☐ מנהל/ת מינהל החינוך |
| <i>Chief officer of Engineering</i> | <i>Chief officer of Education</i> |
| ☐ תקציבן/חשב במינהל ההנדסה | ☐ תקציבן/חשב מינהל החינוך |
| <i>Officer in charge of the budget in Engineering</i> | <i>Officer in charge of the budget in Education</i> |
| ☐ מנהל/ת החשבונות הראשית | ☐ גזבר/ית העירייה |
| <i>Head bookkeeper</i> | <i>Chief officer of finance</i> |

מצורפות שתי מעטפות נוספות אשר עומדת לרשותך במידה ונראה לך חשוב להעבירן לבעלי תפקידים נוספים בעירייה לקבלת תשובתם לשאלון.

Two optional questionnaire packages are added if it seems important to you to have additional job holders filling in the questionnaire.

Appendix K: List of Municipalities that were
part of the research

1. Affula	19. Kiryat Gat
2. Ashdod	20. Kiryat Yam
3. Ashkelon	21. Lod
4. Bat Yam	22. Migdal Haemek
5. Beer Sheva	23. Nazareth
6. Beit Shemesh	24. Nazareth Ilit
7. Bne Brak	25. Nes Ziona
8. Carmiel	26. Netanya
9. Dimona	27. Petach Tikva
10. Eilat	28. Raanana
11. Givatayim	29. Ramat Gan
12. Hadera	30. Ramleh
13. Haifa	31. Rehovot
14. Herzelia	32. Rishon LeZion
15. Hod Hasharon	33. Rosh Haayin
16. Jerusalem	34. Shfarham
17. Kfar Saba	35. Tel Aviv
18. Kiryat Bialik	36. Tiberias

References and Bibliography

Books and Monographs

- ALBRECHT W.S. and others (1988) Evaluating the effectiveness of internal audit departments (Altamonte Springs, Florida: The Institute of Internal Auditors Research Foundation).
- BAILEY, C.T. (1983) The measurement of job performance (Hampshire: Gower Publishing Company Limited).
- BAINBRIDGE, W.S. (1988) Survey research (California: Wadsworth Publishing Company).
- BLALOCK, H.M. (1979) Social statistics (New York: McGraw-Hill).
- BRADBURN, N.M. & SUDMAN, S. (1988) Polls & Surveys (San Fransisco: Jossey-Bass Publishers).
- BUTTERY, R. & SIMPSON, R.K. (1989) Audit in the public sector (Cambridge: Woodhead-Faulkner limited - Simon & Schuster International Group): 3-4.
- BYRNE, T. (1983) Local government in Britain (Penguin Books).
- CHAMBERS, A. (1992) Effective internal audits - How to plan and implement (London: Pitman Publishing).
- CHAMBERS, A.D. & SELIM, G.M. & VINTEN, G. (1987) Internal auditing. Reprinted 1993 (London: Pitman Publishing).
- Chartered Institute of Public, Finance and Accountancy (1992) . Internal audit, Financial information service 9/92 Vol. 3 part II Section 12.
- COLLINS, L. & VALLIN, G. (1974) Audit et controle interne (Dalloz Gestion Finances):126-127.
- COSO - Committee of Sponsoring Organisations of the Treadway Commission (1992) The report.
- COXON, A.P.M. & JONES, C.L. (1978) The images of occupational prestige (New York: St. Martin's Press).
- CZAJA, R. & BLAIR, J. (1996) Designing surveys (Thousand Oaks-California: Pine Forge Press).

- DE VAUS, D.A. (1986) Surveys in social research (London: George Allen & Unwin).
- ELAZAR, D.J. & KALCHAIM, C., Editors (1987) Local government in Israel (Jerusalem: Jerusalem Centre for Public Affairs) (in Hebrew).
- EDUCATION AND CULTURE (1991) Israel government year book 1990 Ministry of Education and Culture Information Centre, (Jerusalem: Israel Business Research and Technical Translation/Documentation Ltd.).
- FAN, D.P. (1988) Predictions of public opinion from the mass media (New York: Greenwood Press).
- FOWLER, F.J. (1993) Survey research methods. second edition (Newbury Park - California: Sage Publication)
- FRIEDBERG, A., Editor (1995a) State auditing in Israel (Jerusalem: Academon) (in Hebrew).
- FRIEDBERG, A., Editor (1995b) Internal auditing in Israel (Jerusalem: Central School of Administration - State Civil Service Commissioner's Office) (in Hebrew).
- GILON, M., Editor (1966) Rules in public administration based on the State Comptroller's reports (1949-1961) (Jerusalem: State Comptroller's Office) (in Hebrew).
- GLYNN, J.J. (1985) Value for money auditing in the public sector (London: Prentice/Hall International)
- GREINER, L.E. & SCHEIN, V.E. (1988) Power and organization development - mobilizing power to implement change (Addison - Wesley Publishing Company).
- GURION M. (1957) Introduction to the history of local government in Israel (Jerusalem: Hatchia Publishers Ltd.) (in Hebrew).
- GYFORD, J. (1984) Local politics in Britain (Croom Helm Ltd.).
- HALL, R.H. (1972) Organizations structure and process (New Jersey: Prentice Hall Inc.).
- HENLEY, D. and others (1992) Public sector accounting and financial control. Fourth Edition (London: Chatman & Hall)

- HENNEY, A. (1984) Inside local government, a case for radical reform (London: Sinclair Browne Ltd.).
- HENRY, G.T. (1990) Practical sampling (Newbury Park - California: Sage Publication)
- HERBERT, M. & TRAVERS, T. - editors (1988) The London government handbook (London School of Economics and Political Sciences).
- HOPKINS, B. (1997) Perception of audit quality (London: CIPFA).
- HUMPHREY, C. (1991) "Audit expectations" in Sherer, M. & Turley, S., editors. Current issues in auditing. Second edition (London: Paul Chapman Publishing Ltd.) pp. 3-21.
- INTERIOR (1989) The guide to the new elected representative (Jerusalem: The Local Authority Administration) (in Hebrew).
- JONES, E.E. (1990) Interpersonal perception (New York: W.H. Freeman and Company).
- KERLINGER, F.N. (1986) Foundations of behavioral research (Florida: Harcourt Brace Jovanich Publishers)
- KOPPEL, G. & ZEDEK, S. (1989) Data analysis for research designs (New York: W.H. Freeman and Company).
- LINEBERRY, R.L. & SHARKANSKY, I. (1971) Urban politics and public policy (New York: Harper & Row Publishers)
- LIVY, B. (1975) Job evaluation: A critical review (London: Allen & Unwin Ltd).
- Local authorities in Israel 1994: physical data - special series no. 1021 (1996) (Jerusalem: Central Bureau of Statistics) (in Hebrew).
- MOIZER, P. (1991) "Independence" in Sherer, M. & Turley, S., editors. Current issues in auditing. Second edition (London: Paul Chapman Publishing Ltd.) pp. 35-46.
- NORUSUS, M.J. (1988) The SPSS guide to data analysis for SPSS/PC+ (Chicago: SPSS Inc.).
- PARSONS, J. & SMELSER, N.J. (1956) Economy and Society (Illinois: The Free Press).

- PFEFFER, J. (1992) Managing with power - Politics and influence in organizations (Boston: Harvard Business School Press).
- POWER, M. (1994) The audit explosion (London: Demos-White Dove Press) pp. 43-57.
- PRICE WATERHOUSE (1990) Value for money auditing. The investigation of Economy, Efficiency, Effectiveness (London: Gee & Co. Publishers).
- RICHARDS, P. G. (1983) The local government system (George Allen & Unwin publishers Ltd).
- RITTENBERG, L.E. (1977) Auditor independence and system design (Florida: The Institute of Internal Auditors).
- ROZEN, D. (1978) Six elections in municipalities and local authorities (Jerusalem: Ministry of the Interior) (in Hebrew).
- SAUNDERS, P. (1979) Urban politics - a sociological interpretation (London: Hutchinson & Co. Ltd.).
- SHAFAT, A.J. (1992) Local government: legal aspects. past, present and future (Jerusalem: Ministry of the Interior, Local Government Bureau) (in Hebrew)
- SHARKANSKY, I. (1987) The political economy of Israel (New Jersey: Transaction Books, Rutgers - the State University)
- SPIEGEL, M.R. (1961) Theory and problems of statistics. (New York: Schaum Publishing Company)
- Standards for the professional practice of internal auditing (1978) (Altamonte Springs: The Institute of Internal Auditors)
- State Comptroller's Audit on Local Authorities 1992 (Jerusalem) (in Hebrew)
- State Comptroller's Audit on Local Authorities 1995 (Jerusalem) (in Hebrew)
- State Comptroller's Audit on Local Authorities 1996 (Jerusalem) (in Hebrew)
- Statistical abstract of Israel 1996 No. 47 (Jerusalem: Central Bureau of Statistics)
- STOKER, G. (1988) The politics of local government (London: MacMillan Education Ltd.)

- SUDMAN, S. & BRADBURN, N.M. (1982) Asking questions – A practical guide to questionnaire design (San Francisco: Jossey-Bass Inc. Publishers)
- TURLEY, S. & SHERER, M. (1991) "Regulating the auditing profession" in Sherer, M. & Turley, S., editors. Current issues in auditing. Second edition (London: Paul Chapman Publishing Ltd.) pp. 47-59.
- VENABLES, J.S.R. & IMPEY, K.W. (1991) Internal audit (London: Butterworths)
- WARWICK, D.P. & LININGER, C.A. (1975) The sample survey: Theory and practice (McGraw - Hill book company).
- WEISBERG, H. F. & BOWEN, B. D. (1977) An introduction to survey research and data analysis (San Francisco: W. H. Freeman and Company)
- WEISS, S. (1972) Local government in Israel (Tel Aviv: Am Oved Publishers Ltd.) (in Hebrew).
- WOOLF, E. (1983) Current Auditing development (Cambridge: University Press).
- ZALLER, J.R. (1992) The nature and origins of mass opinion (New York: Cambridge University Press).

Articles

- AMRANI, S. (1996) Internal auditing in local authorities. The (Israeli) Internal Auditor 89:25-43 (in Hebrew).
- Auditing Practices Board (1993) Accountancy. January:88-94.
- BURNABY, P.A. & POWELL, N. & STRICKLAND, S. (1992) Contrasts. Internal auditing in the U.S. and Japan. Internal Auditor. 49(1):38-45.
- BURNABY, P.A. & POWELL, N.C. & STRICKLAND, S. (1994) Internal auditing internationally: another step toward global. Internal Auditing. Winter 1994:38-53.
- ENZ, C.A. (1989) The measurement of perceived intraorganizational power: A multi-respondent perspective. Organizational Studies. 10(2:241-251).
- FRIEDBERG, A. (1988) Public and internal audit in Israeli local authorities. Town and area. 18:27-47 (in Hebrew).

- FRIEDBERG, A. (1994) Internal auditing in the local government sector in the USA Studies in state auditing 51:22-36 (Jerusalem: State Comptroller Office) (in Hebrew).
- GAFNEY, M.A. & LYNN, S.A. (1989) The expectations gap and municipal auditing. The Government Accountants Journal Summer 38(2):17-24.
- GOLDSMITH, M. (1992) Local government Urban Studies 29(3/4:393-410).
- GRANOL, M. (1980) Auditing local authorities in Israel Studies in state auditing 31: 52-58 (Jerusalem: State Comptroller's Office) (in Hebrew).
- GUY, D.M. & SULLIVAN J.D. (1988) The expectations gap auditing Standards. Journal of Accountancy April:36-46.
- HICKSON, J.J. and others (1971) A strategic contingencies' theory of intraorganizational power. Administrative Science Quarterly. 16(2):216-229.
- HUMPHREY, C., MOIZER, P. & TURLEY, S. (1992) The audit expectations gap - plus ça change, plus c'est la même chose? Critical Perspectives on Accounting 3:137-161.
- IACOBUCCI, D. & MCGILL, A.L. (1990) Analysis of attribution data: theory testing and effects estimation. Journal of Personality and Social Psychology. 59(3):426-441.
- KALCHAIM, C. & ROZEVITCH S. (1980) Audit institutions in local authorities in Israel. The (Israeli) Internal Auditor 66 (in Hebrew).
- MENZEL, D.C. (1995) The ethical environment of local government managers. American Review of Public Administration. (Fall)
- MIZRAHI, N. (1993) The internal auditing law. The (Israeli) Internal Auditor 85:10-27 (in Hebrew).
- MONTONDON, L. & MEISMER, W.F. (1992) Environmental characteristics: The effect on municipal auditor's objectivity. Internal auditing. 7(3):65-71.
- PENNO, M. (1990) Auditing for performance evaluation. The Accounting Review 65(3):520-536.
- PERCY, J.P. (1995) The Cadbury report and corporate governance in the UK. The CPA Journal. 65(5):24-28.

- REINSTEIN, A. & GARHART, D.R.L. (1987) The internal auditor's role in public sector audit committees. Public Budgeting and Finance 7(2):72-80.
- SHARP, F.C. & BULL I. (1992) Information oversight for efficiency and effectiveness in local government Government Accountants Journal 40(4):59-65
- STOLER, G. & WOLMAN, H. (1992) Drawing lessons from U.S. experience: An elected mayor for British local government. Public Administration. 70:241-267
- TOMBS, A. (1992) The future of internal audit. Public Finance and Accountancy. 28 Feb. 1992:21-22
- TROPE, T. (1986) Identification and inferential processes in dispositional attribution. Psychological Review. 93(3)239-257
- WHEAT, E. (1991) The activist auditor: A new player in state and local politics. Public Administration Review. 51(5).
- WRIGHT, G.B. & BARGRANOFF (1995) Is there a problem with the internal auditor's image? Internal Auditing. 10(4) 11-23.

Unpublished

- CHAPMAN, W.C. (1982) An evaluation of the staff functions of internal auditing and constitutional research in institutions of higher education: And a comparison of the combined activities of those staff functions with the internal auditing staff function in private business enterprises. PhD thesis. abstract. University of Oklahoma.
- FARBO, J.L. (1985) A comparison of the perceived effectiveness of the internal audit function between selected private and public supported colleges and universities in Western United States. PhD thesis. University of Idaho.
- O' SHAUGHNESSY, J.J. (1990) An empirical study of the extent of implementation and effectiveness of the Treadway Commission's recommendations as perceived by internal audit managers of California's 100 largest publicly held companies. PhD thesis. Golden Gate University.
- SCHNEIDER, A. (1982) External auditors' evaluation of internal auditing: A conjoint measurement approach. PhD thesis. abstract. The Ohio State University.

SHREIM, O.S. (1989) Value for money auditing: its development and application with special reference to the U.K. public sector. PhD thesis. University of Wales.

TRAVERS, R.O. (1991) A comparison of perceived importance of factors that have an impact on audit effectiveness in higher institutions. PhD thesis. abstract. University of Illinois at Urbana Champaign.

Other

AMRANI, S. (1995) Personal communication. (Mr. Amrani is director of the department auditing local authorities and, as of January 1996, the municipalities' accountant in the Ministry of the Interior.)

BEN PORAT, M. (1993) Deficiencies in local government in Israel. Conference, Tel Aviv, October 1993. Unpublished (Mrs. Ben Porat is the State Comptroller of Israel).

GLOBES, One of the leading financial newspapers in Israel.

HAARETZ, One of the three leading newspaper in Israel.

HORNIK, J. (1996) Personal communication. Prof. Hornik is from the School of Business Administration at Tel Aviv University.

IZRAELI, D. (1996) Personal communication. Prof. Izraeli is from the School of Business Administration at Tel Aviv University.

KAPACH, D. (1994) Control tools in local authorities in Israel. Conference, Tel Aviv, October 1994. Unpublished (Mr. Kapach is the former deputy director general of the Ministry of the Interior).

MA'ARIV, one of the three leading newspapers in Israel.

REINSTEIN, A. (1993) Personal communication. (The author met with Professor Reinstein in the USA.)

THE TEL AVIV JOURNAL, A local weekly newspaper in Tel Aviv.