



Studying the Impact of Internal Audit on the Efficiency of Financial and Management Processes in Government Organizations

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Abstract

Internal auditing has been recognized as one of the key tools ensuring transparency and efficiency in public sector organizations, capable of playing a crucial role in improving financial and managerial processes. The aim of this study was to examine the effect of internal audit quality on the efficiency of financial and managerial processes in governmental organizations in Tehran during the period from October 2024 to May 2025. The research employed a mixed-method, descriptive-analytical approach. Data were collected through standardized questionnaires completed by managers and accounting experts in twenty governmental organizations. Data analysis methods included descriptive statistics, Pearson's correlation tests, multiple linear regression, and exploratory factor analysis (EFA), conducted using statistical software. The findings revealed that internal audit quality plays a significant role in enhancing the efficiency of financial and managerial processes. Specifically, improvements in internal audit quality were associated with substantial increases in reporting transparency, risk management, and internal controls. Factor analysis identified three main dimensions of internal audit quality: Risk Assessment, Internal Control, and Transparent Reporting which together explained more than 83% of the total variance. These dimensions collectively had a convergent and positive impact on the efficiency of financial and managerial processes in public sector organizations. The results underscore the need to strengthen internal audit processes as a strategic tool for improving resource management, preventing errors, and enabling decision-making based on accurate information. Therefore, it is recommended that governmental organizations in Tehran invest more heavily in enhancing the structure and quality of their internal audits to improve transparency and maximize the efficiency of their financial and managerial resources.

Keywords: Internal Audit, Efficiency of Financial Processes, Efficiency of Management Processes, Risk Assessment, Internal Controls, Transparent Reporting.

JEL Classification: M42, H83, M48.

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INTRODUCTION

In recent decades, internal auditing has emerged as a pivotal mechanism for ensuring transparency, accountability, and operational efficiency, especially within the public sector. Governmental organizations are entrusted with managing public resources and delivering essential services, facing substantial expectations from various stakeholders regarding integrity, effectiveness, and efficient resource allocation. The unique context of government entities characterized by complex regulatory requirements, bureaucratic structures, and diverse stakeholder interests intensifies the need for robust internal control systems. Internal auditing is widely regarded as one of the most effective tools for mitigating risks, enhancing decision-making, and safeguarding organizational assets. Against the backdrop of increased public scrutiny, regulatory reforms, and a rising demand for accountability in Iran, particularly in the capital city of Tehran, this research investigates how the quality of internal auditing affects the efficiency of financial and managerial processes in governmental organizations. Despite the strategic importance of internal auditing, prior empirical studies on its actual impact especially within Iran's governmental sector remain limited and fragmented. Many government agencies continue to grapple with ineffective oversight mechanisms, data reliability issues, and operational inefficiencies, raising fundamental concerns about resource wastage, risk exposure, and public trust erosion. This study aims to address these gaps by empirically examining the interplay between internal audit quality and the efficiency of both financial and managerial processes within Tehran-based governmental entities during the period from October 2024 to May 2025. Internal auditing, as defined by the Institute of Internal Auditors (IIA), is the independent and objective activity designed to add value and improve an organization's operations, emphasizing risk management, control, and governance processes. In public sector organizations, internal auditors are instrumental in evaluating compliance with regulatory requirements, assessing the effectiveness of internal controls, and providing assurance over financial reporting, risk assessment, and resource management. Agency theory posits that internal auditing can help mitigate conflicts of interest between managers (agents) and principals (government or citizens), reducing information asymmetry and fostering accountability. Control systems theory further reinforces the importance of internal audit as a critical subsystem of organizational control, facilitating the reliable flow of information and supporting effective governance. Prior research underscores internal auditing's role in enhancing transparency, preventing fraud, and improving both financial and non-financial performance. Studies across various contexts, including Iran's banking sector ([Seif, 2014](#)), highlight that deficiencies in internal controls often lead to increased risk exposure and performance shortfalls. International literature consistently points to the positive correlation between robust internal auditing and improved organizational outcomes. For instance, ([Hassan et al., 2025](#)) and ([Wang, 2024](#)) have demonstrated that firms with strong internal audit functions exhibit superior financial performance and resilience to operational risks. However, contextual factors—such as cultural, regulatory, and organizational dynamics significantly influence the actual effectiveness of internal auditing. Despite these global insights, research on governmental organizations, particularly in developing countries like Iran, remains sparse. Existing Iranian studies largely address the private sector or are limited in empirical rigor. The lack of comprehensive, context-specific studies on the direct impact of internal audit quality in public sector entities, especially in Tehran, signals a need for targeted research. This study contributes to the literature by addressing these gaps, offering an in-depth causal analysis of internal auditing's effects on efficiency in a nuanced bureaucratic context.

METHODOLOGY

This research adopts a quantitative, descriptive-survey approach, utilizing stratified random sampling to collect primary data from 150 managers and accounting/audit experts across 20 major governmental organizations in Tehran. The survey instrument consisted of standardized questionnaires measuring key constructs: risk assessment, internal controls, quality of reporting, and efficiency of both financial and managerial processes. The validity and reliability of the questionnaires were confirmed through expert

review and Cronbach's alpha, respectively. The research was conducted between October 2024 and May 2025, which provided a recent and relevant time frame for data collection and analysis.

Analytical methods employed include descriptive statistics, Pearson's correlation coefficient, multiple linear regression, and exploratory factor analysis (EFA) using SPSS software. The EFA aimed to identify underlying dimensions of internal audit quality and assess their explanatory power in relation to process efficiency.

RESULTS

Descriptive Statistics

Initial analyses revealed that respondents generally held a positive perception of internal audit quality and the efficiency of processes within their organizations. Mean scores for internal audit quality (3.82), financial process efficiency (3.75), and managerial process efficiency (3.69) were all above the midpoint on a five-point Likert scale, suggesting perceived strengths with room for targeted improvement.

Correlation Analysis

Pearson's correlation analysis demonstrated significant and positive relationships between internal audit quality and efficiency measures:

- Internal audit quality and financial process efficiency: $r = 0.65$, $p < 0.001$
- Internal audit quality and managerial process efficiency: $r = 0.58$, $p < 0.001$

These findings support the hypothesis that enhancing audit quality leads to improved efficiency in both domains.

Regression Analysis

Multiple linear regression analysis confirmed that internal audit quality is a strong and statistically significant predictor of process efficiency ($\beta = 0.61$, $t = 9.842$, $p < 0.001$), explaining approximately 42% of the variance in efficiency measures. This indicates that investments in audit quality can yield substantial improvements in both financial and managerial outcomes.

Exploratory Factor Analysis

EFA revealed three principal components of internal audit quality:

1. Risk Assessment (factor loading: 0.78, explaining 35% of the variance)
2. Internal Control (loading: 0.74, 28% variance)
3. Transparent Reporting (loading: 0.71, 20% variance)

Collectively, these factors account for 83% of the total variance in internal audit quality. Notably, risk assessment and internal control exhibited the highest impact.

Qualitative Insights

Open-ended survey responses and in-depth interviews highlighted several qualitative dimensions:

- Continuous professional training for auditors
- Adoption of modern audit technologies (e.g., computerized auditing systems)
- Development of a responsive and accountable organizational culture

These factors were perceived to further enhance process efficiency and audit effectiveness.

The results empirically substantiate the critical role of internal auditing in governmental organizations. By focusing on risk assessment, establishing robust internal controls, and ensuring transparency in reporting, internal audit departments significantly enhance the optimization of both financial and managerial processes. These findings are consistent with both global literature ([Nerantzidis et al., 2022](#); [Florina et al., 2013](#)) and local research ([Seif, 2014](#); [Sheikhy et al., 2022](#)). Furthermore, integrating professional development, leveraging digital tools, and nurturing a culture of accountability emerge as supplementary strategies to magnify the efficiency and efficacy of internal audit functions. The study also raises the importance of context-specific factors such as regional regulatory environment, organizational culture, and resource constraints which moderate the impact of audit interventions. The

findings carry clear managerial implications: strengthening internal audit structures, prioritizing risk management, embracing technological advancements, and investing in human capital are all strategic imperatives for public sector organizations aiming to boost efficiency and trustworthy.

CONCLUSION

This study demonstrates that the quality of internal auditing is a significant determinant of the efficiency of financial and managerial processes within governmental organizations in Tehran. Risk-driven audits, stringent internal controls, and transparent reporting serve as the pillars for achieving supervisory and operational excellence. The results strongly advocate that Iranian public entities invest in improving internal audit structures not only as a safeguard against inefficiency and corruption but also as a lever for optimal resource management and enhanced stakeholder confidence. However, the study's limitations including its focus on Tehran, a cross-sectional design, and the exclusion of macro-level policy variables warrant caution in generalizing the findings. Future research should extend to other regions, adopt longitudinal designs, and explore the effects of emerging technologies such as AI and fintech in public sector auditing.

Contribution of Authors

All authors participated in the process of writing the article, collecting data, and analyzing it.

Ethical Approval

All stages of the research were conducted with the informed consent of the participants, and their information will remain confidential.

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Conflict of Interest

No conflict of interest has been declared by the authors.

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