

## **Effectiveness of internal audit outsourcing: A study of finance companies in Anuradhapura District in Sri Lanka**

**P.A.D. Prasanna and C.T. Gamage**

*Department of Accountancy & Finance, Faculty of Management Studies,  
Rajarata University of Sri Lanka, Mihintale, Sri Lanka.*

*Corresponding author: [prasanadumith2834@gmail.com](mailto:prasanadumith2834@gmail.com)*

### **Abstract**

This study examines effectiveness of internal audit outsourcing practices of finance companies in Anuradhapura District where the context has not been researched over the past decades. The extent of effectiveness of internal audit outsourcing practices in ten finance companies registered under the Central Bank in Sri Lanka were examined in the study. The dependent variable is effectiveness of internal audit outsourcing. The independent variables are costs saving, technical competence of external service providers and audit independency. Three hypotheses were developed for the study based on the available literature. The sample consisted of fifty management level and operational level employees in the finance companies which outsource internal audit function to external service providers. In data analysis, reliability testing, descriptive statistics, correlation analysis and multiple regression analysis were used to measure the relationship between independent variables and dependent variable. The result showed that technical competence and audit independency have significance effect on the effectiveness of internal audit outsourcing. However, cost saving has not any effect on the effectiveness of internal audit outsourcing. The results also revealed that there is a positive relationship between technical competence and audit independency with effectiveness of internal audit outsourcing. Thus, technical competence and audit independency are the key determinants of effectiveness of internal audit outsourcing in the financial companies in Anuradhapura District.

**Keywords:** *Cost, independency, internal audit outsourcing, technical competence.*