

DETERMINANTS OF PUBLIC SECTOR AUDIT QUALITY: THE CASE OF THE OFFICE OF THE FEDERAL AUDITOR GENERAL, ETHIOPIA (OFAG)

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ABSTRACT:

This paper examined the determining factors affecting public sector audit quality. Primary and secondary data were used for the study. The primary data for the study were collected from the Office of federal auditor general, Ethiopia using structured questionnaires. Secondary data were gathered from various electronic source literatures. Audit quality depends on the competence of the auditors, the independence of the organization and the auditors, the legal frameworks, and government support. The instrument of analysis was the regression model between the variables Durbin-Watson and VIF Test for autocorrelation and multicollinearity. The findings showed that the dependent variable, audit quality, has a positive and significant relationship with the predictors' auditors' competence, organizational and auditors' independence, and the audit legal frameworks. However, government support has a positive and insignificant relationship with the dependent variable. The beta coefficient is highly positive for auditor competence and organizational and auditor independence and the audit legal frameworks imply that these factors affect audit quality in the public sector. Consistent with the above findings, the researcher recommended that the government should strengthen the audit institution to ensure accountability and transparency in public sectors.

Key words: audit, competence, independence, determinants, regression

Jel classification: M42

INTRODUCTION

An audit is an objective investigation of a subject in which the auditor provides objective findings about the use of funds by the underlying institution. The main goal of auditing is to increase transparency and accountability in the public and private sectors. Auditing is a technique to hold public and commercial organizations accountable for their obligations. Accountability, transparency, equality, and integrity are improved by auditing an organization's activities (Afzal, 2016).

An audit's primary aim is to increase the level of trust in the financial statements of intended users. To provide an opinion on whether the financial statements are prepared, in all material aspects, in compliance with the applicable financial reporting framework, auditors must gather sufficient relevant audit evidence. This opinion typically concerns whether the financial statements "present fairly, in all material respects," or provide "a true and fair assessment" of the entity's financial situation as of the period's end, as well as its performance and cash flows for the period. An important basis for ensuring audit quality is provided by auditing standards. Particularly, the IAASB's International Standards on Auditing (ISAs) set up the baseline standards and outline the auditor's responsibilities. (IAASB, 2013). On the other hand, most ISA criteria either offer a framework for the decisions taken in an audit or require opinion to be appropriately applied. The Supreme Audit Institutions (SAIs) are the leading public sector auditing bodies in each state. Their primary function is to assess whether public funds are used effectively, economically and efficiently while adhering to all applicable laws and regulations and considering the country's needs. The effectiveness of controls can be confirmed, waste can be found, and improvements to the performance of government organizations can all be made with the help of well-functioning SAIs. They achieve this by generating detailed audit reports that are objective and designed to bring about positive change in the way governments handle public resources. They can decrease fraud, promote sustainable national growth, and alleviate poverty by ensuring that money is used wisely (OECD, 2010).

Most developing nations have a Supreme Audit Institution as their recognized identity for public sector auditing (Auditor-General, Comptroller General, an Audit Commission, or a Court of Accounts). Many SAIs are members of INTOSAI, which, with the help of donors and the United Nations, has helped its members enhance their operations in large part by creating auditing standards and other rules (World Bank, 1995).

Problem statement

SAIs should be staffed and led by professionals, and government intervention should be minimal (OECD, 2010). They are also important in verifying that control systems are working properly. The main responsibilities of the Office of the Federal Auditor General of Ethiopia are to determine if public funds are used effectively, economically, and efficiently while adhering to all applicable laws and regulations. It improves good governance and the functioning of government institutions by providing independent audit services in accordance with international standards for supreme audit institutions. However, it is not functioning, as it ought to.

The lack of good governance and accountability and the waste of public resources are the main problems facing public institutions in Ethiopia. These will result in political, economic, and social instabilities unless they are addressed properly.

Research questions

To what extent do the factors of auditor competence, organizational and auditor independence, audit legal frameworks, and government support affect the audit quality of OFAG of Ethiopia?

LITERATURE REVIEW

The Concepts of public Sector and Public Sector Audit

Defining the public sector is difficult due to the complexity of the delineation. However, the literature suggests that the public sector can be defined in terms of source of funding, ownership and control, direction or regulation, or the provision of social services (Danescu, 2011). In general, the public sector consists of governments and any publicly controlled or publicly funded entities, corporations, and other entities that provide public programs, goods, or services.

Traditionally, the independent external auditor's function has been to assure the legislature that the financial statements that the government has provided abide by relevant accounting standards. The legislature needs confirmation from a recognized professional organization that the administration has not "cooked the books." This assurance has expanded over time to also include assurance that the existing financial systems are following the standards. The external auditor is regarded as playing a crucial role in the accountability process in this function. Since it is an attested audit, the auditor's "report" is formally a part of the public accountability process between the government and the legislature and is included in the government's reporting to the legislature. It is also part of the official record (Mayne, 2006). The external auditor continues to provide legislative assurance through performance audits. Instead of focusing on the government's financial records, it is important to consider how effectively and efficiently it is achieving its goals. Most reporting is straightforward, with the auditor's report being presented to the legislature and made available to the public. Since reporting is required by law, it is an integral part of the accountability system. Compared to the financial audit job, the performance audit job for external auditors is a significantly more recent development.

There are two types of audits in the public sector: financial audits (including compliance) and performance audits (Dwiputrianti, 2011). Compliance auditing refers to the traditional forms of audit that, next to financial auditing, have been known since Ancient Egypt and China. Defining the public sector is difficult due to the complexity of the delineation.

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There are two types of audits in the public sector: financial audits (including compliance) and performance audits (Dwiputrianti, 2011). Compliance auditing refers to the traditional forms of an audit that, like financial auditing, have been known since Ancient Egypt and China. The idea of the independence and self-reliance of state auditors was firmly set up, the consolidation of legislative requirements in the auditing of public finances was formed, and the fundamental institutional patterns of public auditing, namely auditing chambers led by the Auditor General, were anchored (Yuliia & A, 2018). Performance auditing is defined as an impartial evaluation of the economy and efficiency of auditee operations and the effectiveness of public-sector programs.

Public sector audits are conducted to protect public-owned resources by ensuring adequate accountability, upholding standards of conduct in the public sector, and helping public services get value for money. The International Organization of Supreme Audit Institutions (INTOSAI) defines public sector auditing as an examination of the operations, activities, and systems of a given entity to verify that they are being carried out or functioning

following specific goals, budgets, rules, and requirements (Oyebisi, 2017). Because the public sector's ability to deliver services successfully and carry out programs in a fair and proper manner is measured primarily by its ability to deliver services, public sector audit activities should have the authority and competency to evaluate financial and program compliance, effectiveness, economy, and efficiency. Auditors must also safeguard the public sector's basic principles, as it serves all citizens.

Since the public sector differs from the private sector in many respects, including its accounting and financial reporting, the public sector will define audit quality differently from the private sector. For example, the absence of a profit motive differentiates the public sector from a corporate entity. Due to the need that only public sector auditors be appointed to examine public sector administration, there is a consequent dominance of public sector auditors. Lack of competition at the public sector level degrades audit quality. However, the background knowledge and abilities of auditors can improve the governance of the public sector (Aida Hazlin Ismail, 2019). Controlling systems intended to enhance audit process results are necessary to achieve an overall quality audit. Quality control procedures are a crucial step in the auditing process. Error reduction and increased check efficiency have long been the goals of auditing practice. The addition of automation to the auditing profession had a role in the 21st century's advancement of auditing. Computer-assisted auditing procedures are now one of the fundamental techniques used in the auditing profession (Jassim, 2019).

Theoretical Framework

The Principal Agency Theory

Agency theory has evolved along two paths since its origins in information economics: positivist and principal-agent. The contract between the principal and the agent is a common unit of analysis in both streams. They also have similar beliefs about people, organizations, and data. Their mathematical rigor, dependent variable, and style, on the other hand, differ (Eisenhard, 1989). Some scholars argue that the audit helped promote public sector accountability and emphasize that public sector audits are a key element in examining and evaluating government accountability for the use of public funds and the delivery of public services. Public sector audits can be an essential element in ensuring the efficiency, effectiveness, and accountability of the government to the public (Dwiputriant, 2011). According to (Bedasso, 2020), a principal-agent relationship exists in the public sector. Officials working as the principal (public) agent must answer the principal regularly for their resource usage and stewardship, and the extent to which the public's goals have been met. Effective auditing mitigates the risks that come with a principal-agent relationship.

The principal relies on the auditor to offer an impartial, independent assessment of the agent's performance and to report on whether the agent is following the principal's interests in the use of resources. The Ethiopian Federal Government distributes public funds or resources to Federal budgeting entities based on the degree and extent of implementation of the country's strategic plan. As an agent, public institutions are required to use resources to carry out their goals. Several aspects inherent in the connection between the principal and its agent need the use of a third party, the office of the general auditor, to confirm the reliability (credibility) of the performance results, compliance, and other metrics.

Empirical Literature Review

Several topics emerge from the literature review and the history review. One of these is the fact that there are several complementary arguments for the factors affecting audit quality. A study by (R. Wedi Rusmawan Kusumah, 2020) titled "Analysis of the Determinant Factor of Audit Quality in Bandung Public Accountant Offices" shows that independence, competence, integrity, and work experience have significant impacts on audit quality. A study was conducted under the title "Determinant of Audit Quality: The Guardian and Justice Organizations in (Target 16.6 SDGs)" by (F Fitriany, 2020) and the result reveals that the internal control system and audit tenure were the two factors that had a significant impact on audit quality. A study on determinants of audit quality in public accounting firms in Indonesia aimed to examine and prove the effect of education, experience and audit fee on audit quality and showed that education, experience, and audit fee are factors that influence audit quality (Kartini, 2021).

The study, which used the Tanzanian National Audit Office as a case study to evaluate the factors influencing audit quality in the public sector, found a strong correlation between the ethical behavior of auditors and the audit's standard. Auditor independence, expertise, and ethical behavior had audit greatest impact on the quality of audits in the public sector. The research suggests putting greater effort into enhancing the auditors' independence and moral behavior, both of which are seen to have a significant effect on the audit quality (Sanda, 2020).

RESEARCH METHODOLOGY

The participants in this study are auditors from Ethiopia's Office of the federal Auditor General. Data was collected using questionnaires; multiple linear regression models were used using SPSS 23 were used; and the descriptive research method was applied to analyze and interpretation of the variables to be studied.

Sampling Design and Data Collection Procedures

The study applied probability and non-probability sampling techniques. Purposive sampling procedures were considered in the initial stage to select the departments included in the study. The simple stratified random sampling technique was used to select respondents from each department to minimize the risk of bias. Random samples from each stratum (class) taken proportional to the stratum’s size of the stratum compared to the population.

The Yamane (1967) formula was used to determine the sample size. To provide an overview of the relationship between the independent variables and the audit quality of the dependent variable, a descriptive analysis was used based on the results of multiple regressions.

This formula was used to calculate the sample sizes at 95% confidence level and P = 0.5 is assumed

$$n = N / [1 + N (e)^2]$$

Where

n= is the sample size,

N= is the population size, and

e= is the level of precision/sampling error

When this formula is applied to the above population, we get

$$n = N / [1 + N (e)^2]$$

$$n = 603 / [1 + 603(0.05)^2]$$

$$n = 240$$

Response Rate 240 questionnaires were distributed to four departments of the Office of Audit General of Ethiopia, and 207 were correctly completed and collected, which accounts for 86.25 percent, which is reasonably good considering the difficulty of collecting primary data.

RESULT

Table 1: Reliability Statistics of the measurement items

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.813	0.859	6

Source: Author computation of SPSS result

Cronbach’s alpha is one of the most widely used measures of reliability in the social and organizational sciences literature (R.Glien., 2003), (α) value greater than 0.70 is considered good and acceptable, and the result fulfills the criteria.

Table 2: Item-Total Statistics of measurement items

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Aud_Qual	18.59	0.680	0.705	0.577	0.763
Org_Ind	18.57	0.669	0.530	0.290	0.793
Aud_Com	18.58	0.678	0.731	0.647	0.759
Legal	18.57	0.695	0.714	0.632	0.765
Gov_supp	18.59	0.694	0.647	0.533	0.773
Auditor_Ind	18.58	0.567	0.446	0.207	0.860

Source: Author computation of SPSS result

Table 3. Model Summary for the statistical results

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.760	0.577	0.567	0.118	0.577	54.872	5	201	0.000	2.092

Source: Author computation of SPSS result

- Predictors: (Constant), Gov_supp, Auditors_Ind, Org_Ind, Aud_Com, Legal
- Dependent Variable: Aud_Qual

This study takes into account the following model to assess the factors that affect audit quality:

$$\text{Audit_Quality} = \beta_0 + \beta_1 \text{Aud_Com} + \beta_2 + \beta_3 \text{Org_Ind} + \beta_4 \text{Aud_Ind} + \beta_5 \text{Legal} + \beta_6 \text{Gov_supp} + \epsilon$$

Where Aud_Com stands for auditors' competence, Org_Ind organizational independence, Auditor_Ind auditors' independence, legal audit legal frameworks, and Gov_supp government support.

Table 4. ANOVA(Analysis of Variance)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.834	5	.767	54.872	.000
	Residual	2.809	201	.014		
	Total	6.643	206			

a. Dependent variable: Aud_Qual

b. Predictors: (Constant), Gov_supp, Auditors_Ind, Org_Ind, Aud_Com, Legal

Source: Author computation of SPSS result

Table 5. Correlations Coefficients among variables

	Aud_Qual	Aud_Com	Org_Ind	Auditors_Ind	Legal	Gov_supp
Aud_Qual	1					
Aud_Com	.569**	1				
Org_Ind	.460**	.326**	1			
Auditors_Ind	.404**	.243**	.342**	1		
Legal	.663**	.533**	.429**	.363**	1	
Gov_supp	.549**	.483**	.442**	.317**	.686**	1

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

Table 6. Regression coefficients of statistics

Model	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
(Constant)	.481	.202		2.380
Aud_Com	.433	.072	.425	5.981
Org_Ind	.088	.042	.113	2.107
Auditors_Ind	.055	.026	.106	2.072
Legal	.282	.079	.262	3.573
Gov_supp	.010	.067	.010	.150
Model	95% Confidence Interval for B		Collinearity Statistics	
	Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.083	.880		
Aud_Com	.290	.575	.416	2.405
Org_Ind	.006	.171	.726	1.378
Auditors_Ind	.003	.107	.810	1.235
Legal	.126	.437	.391	2.556
Gov_supp	-.122	.142	.467	2.141

Source: Author computation of SPSS result

a. Dependent Variable: Aud_Qual

All variables have tolerance levels greater than 0.10, and the VIF value is less than 10 (Table 6); the correlation matrix for all variables has paired values less than 0.80 (table 5); and Durbin-Watson 2.092, which falls between 1.50 and 2.50 in Table 6. This result showed there is no multicollinearity or autocorrelation problem that distorts the analysis of findings (Field, 2009).

DISCUSSION

Hypothesis Results

The study seeks to investigate the effect of the competence of the auditors, the independence of the organization and the auditors, the audit legal frameworks of and Government support following hypothesis was proposed.

H1: There is a significantly positive impact of auditor competence on audit quality.

H2: There is a significantly positive impact of organizational independence on audit quality.

H3: There is a significantly positive impact of auditor independence on audit quality.

H4: There is a significantly positive impact of audit legal frameworks on audit quality.

H5: There is a significantly positive impact of government support on audit quality.

The dependent variable (audit quality) was regressed to the predicting variables of auditors' competence, organizational independence, auditors' independence, audit legal frameworks and government support. Four out of the five independent variables significantly predict audit quality $F(5, 2.809) = 54.872, P < 0.05$, which shows that the four factors under study have a significant impact on audit quality. Furthermore, $R^2 = .577$ shows that the model accounts for 57.7% of the variation in audit quality. Furthermore, the coefficients were further assessed to determine the influence of each of the factors on the criterion variable (audit quality). H1 evaluates whether auditors' competence significantly and positively affects audit quality. The result reveals that auditors' competence has a significant and positive impact on audit quality ($\beta = .433, t = 5.981, P = 0.00$). Hence, H1 was supported. H2 evaluates whether organizational independence has a significant impact on audit quality. Organizational independence has a significant and positive effect on audit quality ($\beta = .088, t = 2.107, P = .036$), according to the findings. As a result, H2 was supported. H3 assesses whether auditors' independence significantly and positively affects audit quality.

The result reveals that auditor independence has a significant and positive impact on audit quality ($\beta=.055$, $t=2.107$, $P=.040$). As a result, H3 was supportive. H4 evaluates whether audit legal frameworks significantly and positively affect audit quality. According to the findings, audit legal frameworks have a significant and positive impact on audit quality ($\beta=.282$, $t=3.573$, $P=.000$). Therefore, H3 was also supported. H5 evaluates whether government support significantly and positively affects audit quality. The result shows that government support has a positive but insignificant impact on audit quality ($\beta=.010$, $t=.150$, $P=.881$). Therefore, H5 was not supported.

CONCLUSION

The result of the analysis shows that all independent factors auditor competence, organizational independence, auditor independence, and audit legal frameworks had positive and significant impacts on audit quality, supporting the hypothesis. While Government support has positive but insignificant effects on audit quality. Technical audit and accounting skills, critical thinking, interpersonal skills, and communication skills are the requirements of a competent auditor. The fundamental aspects of generally accepted auditing standards are organizational independence and audit independence. These two factors have a positive and significant impact on audit quality. Audit legal frameworks are the other important area in public sector audits that must be addressed to enhance audit quality. This factor has a positive and significant impact on the audit quality. The government is responsible for supporting public sector audits to improve good governance in the public sector. This factor had a positive but insignificant impact on audit quality.

RECOMMENDATION

According to the study's findings, the following recommendations are made:

- The OFAG of Ethiopia should be staffed and led by professionals, and government intervention must be minimal.
- The office should arrange continuous educational and training programs on technical, critical thinking, interpersonal, and communication skills to upgrade auditors' knowledge and skills.
- The government should work to ensure organizational and auditor independence to improve audit quality in public sectors so that public funds are allocated for the intended purposes.
- Audit legal frameworks should be reviewed and amended regularly to improve audit quality in public sectors and achieve good governance.

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