



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

FACTORS AFFECTING REGULARITY AUDIT EFFECTIVENESS:
THE CASE OF
OFFICE OF AUDITOR GENERAL ETHIOPIA (HEAD OFFICE).

SITI JUHAR

ADVISOR: TAKELE Fufa, PHD

ADDIS ABABA, ETHIOPIA

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Statement of Declaration

I hereby declare that the thesis entitled “**factors affecting regularity audit effectiveness: in case of office of federal auditor general of Ethiopia**” is my own work and to the best of my knowledge it contains no materials previously published or written by another person, or substantial proportions of material which have been accepted for the award of any other degree or diploma at university or any other educational institution, except where due acknowledgment has been made in the text.

Declared by: Siti Juhar

Signature: _____

Date: _____

Statement of Certification

This is to certify that Siti Juhar has carried out her research work on the topic entitled “**factors affecting regularity audit effectiveness: in case of office of federal auditor general of Ethiopia**”. The work is original in nature and is suitable for submission for the reward of the M.Sc. Degree in Accounting and Finance.

Name of Advisor

Signature

Name of External Examiner

Signature

Name of Internal Examiner

Signature

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Acronyms and Abbreviations

AFROSAI-E	African Organization of Supreme Audit Institutions-English-speaking
ASC	Audit Service Corporation
HEPSI	Horn Economic and Social Policy Institute
IIA	Institute of Internal Auditor
IFAC	International Federations of Accounts Committee
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
OECD	Organization for Economic Co-operation and Development
OFAG	Office of the Federal Auditor General
QAR	Quality Assurance Review Report
SAIs	Supreme audit institutions

Table of Contents

Acronyms and Abbreviations	iv
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the study	1
1.2 Statement of the problem	2
1.3 Research questions.....	5
1.4 Research Hypothesis.....	5
1.5 Research Objectives.....	5
1.5.1 General Objective	5
1.5.2 Specific Objectives	5
1.6 Significance of the Study	6
1.7 Scope of the study	6
1.8 Limitation of the study.....	6
1.9 Organization of the paper.....	6
CHAPTER TWO: LITERATURE REVIEW	7
2.1 Introduction.....	7
2.2 Theoretical literature review	7
2.2.1 History of Supreme Audit Institution (SAI) in Ethiopia.....	7
2.2.2 Auditing Defined.....	8
2.2.3 Features and Objectives of Auditing.....	9
2.2.4 Auditing Standards.....	10
2.2.5 Types of Audit	13
2.2.6 Types of auditor [Internal and External Auditors].....	15
2.2.7 Auditing models.....	16
2.2.8 Public sector auditing.....	18
2.2.9 Factors Affecting Effectiveness of public sector auditing	19
2.3 Empirical Literature Review	22
2.5 Conceptual Framework.....	25
CHAPTER THREE: RESEARCH METHODOLOGY.....	26
3.1 Research Design.....	26
3.2 Sampling Design.....	26
3.3 Data type, source and methods of collection	27

3.4 Methods of Data Analysis and Interpretations.....	27
3.5 Conceptual Model for Multiple Regression Analysis.....	28
3.7 Validity and reliability	29
CHAPTER FOUR.....	30
Data Presentation, Analysis and Interpretation.....	30
4.1 Response Rate.....	30
4.1.1 Reliability Analysis.....	30
4.2 Profiles of the respondents.....	31
4.2.2 Field of study	32
4.2.3 Current position	33
4.2.4 Level of Education.....	34
4.2.5 Level of Experience	34
4.3. Descriptive Analysis Results	35
4.3.1 SAI’s legal mandate.....	35
4.3.2 Auditees’ Cooperation	38
4.3.3 Auditors’ Competency	39
4.3.4 Regularity audit effectiveness.....	41
4.4. Assessment of Multiple Regression Model Assumptions.....	43
4.4.1. Assessment of Normality.....	43
4.4.2. Assessment of Heteroskedasticity	44
4.4.3. Assessment of Multicollinearity	45
4.5 Multiple Regression analysis Results	46
4.6 Results of Hypothesis testing.....	48
CHAPTER FIVE	49
Summary, Conclusion and Recommendation.....	49
5.1 Summary of Major Findings	49
5.2 Conclusions.....	50
5.2 Recommendations.....	51
Reference List.....	52
APPENDIX A: Questionnaire Developed For The Research.....	i

Abstract

The importance of the role of regularity audit in the public sector in supporting good governance through its role in supporting the accountability, transparency and integrity in the use of public resources is undeniable. While this crucial role of regularity audit there are several factors affecting its effectiveness. This study investigated factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia. The study tried to identify and measure the impact of Supreme audit institutions' Legal Mandate, Auditees' Cooperation and Auditors' Competency on regularity audit effectiveness. The study employed explanatory type of research method and quantitative research approach. Cross-sectional data was collected from 156 respondent financial auditors of office of the federal auditor general through structured questionnaire. Descriptive and multiple regression analysis techniques were used to summarize the collected data and to study the relationship among the variables under study; respectively. The Statistical analysis was conducted using STATA version 14.2 and SPSS version 26 software. The findings of the study revealed that Supreme audit institutions' Legal Mandate, Auditees' Cooperation and Auditors' Competency have significant and positive influence on regularity audit effectiveness in the office of federal auditor general of Ethiopia. The results of the study also showed that these three variables contribute for 67.6% of variance in regularity audit effectiveness. The findings of this research signposted supreme audit institutions' legal mandate, as the key driver of regularity audit effectiveness. Accordingly the study recommended that the office of the federal auditor general should stretch its mandate for more effective regularity audit.

Key words: Regularity audit effectiveness, office of the federal auditor general (OFAG), supreme audit institutions (SAIs) Legal Mandate, Auditees' cooperation, Auditors' Competency

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Auditing is the process of providing assurance about the reliability of the information contained in a financial statement prepared in accordance with generally accepted accounting principles or other rules. It is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with generally accepted accounting principles or other recognized criteria (Soltani, 2007).

Given the current challenges facing governments and their programs, the oversight provided through auditing is more critical than ever. Government auditing provides the objective analysis and information needed to make the decisions necessary to help create a better future (GAO, 2018). Government auditing as provided by the Auditor General's office is a corner stone of good public sector governance. By providing unbiased objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, the Auditor – General audit helps government organizations achieve accountability and integrity, improve operation, and instill confidence among citizen and stakeholder (Oshsami as cited by Akhidime and Izedonmi, 2012).

Most SAIs were originally established to fulfill a narrow regularity or financial auditing function (DFID as cited by Akhidime and Izedonmi, 2012). Some SAIs still only practice financial audit (Al Faraj, 2009). In Ethiopia regularity audit is conducted on each federal institution either by OFAG or the ASC. In addition the type of audit conducted by private auditing firms is mostly a financial audit. AFROSAI-E (2013) describes that the terms 'regularity audit' and 'financial audit' are often used interchangeably. According to AFROSAI-E (2013), Regularity audit is one of the most common types of SAI audits. Regularity audit, to be also used interchangeably with financial audit in this study; is an audit conducted in accordance with the ISSAIs and relevant ethical requirements enabling the auditor to express an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with applicable financial reporting framework and statutory requirements relating to matters affecting financial statement disclosures (AFROSAI-E, 2013).

More cost-effective and efficient audit work and the better focused audit reports and recommendations will enhance the ability of the legislature to hold public agencies to account and assess the best use of resources and follow up of mandates (HEPSI, 2016). An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable (IIA, 2012). Development partners also benefit from the improved efficiency and effectiveness of the governments' operations resulting from the improved accountability systems and proper use of development assistance (HEPSI, 2016).

While effectiveness of public sector audit particularly regularity audit is a crucial issue for different stakeholders including citizens and development partners; there are numerous factors affecting its usefulness. Institute of Internal Auditors (2012) listed organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support, and professional audit standards as essential for an effective public sector audit activity.

Regularity audit being one of the most common types of public sector audits is indeed affected by the above factors. Particularly, effectiveness of regularity audit in OFAG is affected by different challenges that financial auditors face. Beyashe (2008) has identified that lack of an opportunity to pursue education, inadequate staff capacity and training, challenge in collecting the necessary information, Inappropriate design of assessment forms used, inherent risk assessment form, analytical review procedures form, lack of the necessary support at field, inadequate compensation for auditors, Lack of independence resulted from lack of effective mandate, lack of experience sharing activities with other organizations and Expectation gap inappropriate methods and procedures followed in; audit, setting materiality level, analytical review procedures, and sampling techniques used are the challenges which financial auditors in OFAG face.

1.2 Statement of the problem

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. Public sector audit activities must be configured appropriately to enable public sector organizations to fulfill their

duty to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically, and ethically (Institute of internal auditors, 2012).

Effectiveness of auditing involves “ensuring that the output from the given audit activity is achieving the desired results”. To assess effectiveness one needs to establish that approved or desired goals are being achieved (Butt and Palmer as cited by Burka, 2018). The International Standard on Auditing (ISA) no 200 says the purpose of audit is to enhance the degree of confidence of intended users in the financial statements. Audits are effective if they are strong enough to transparently highlight performance lags of government entities (Masood, 2015).

However several factors at varying degrees hamper effectiveness of both public sector audit and its leading actor, the SAI. In too many cases, SAIs lack the authority, skills and resources to carry out thorough audits and to report the results freely and without fear (OECD, 2010). SAIs have also been challenged by the poor links between the audit function and the exercise of legislative and budgetary power. SAIs have found that it is not sufficient for them to identify errors, possible fraud or examples of poor financial management, but that it is also necessary to identify ways to ensure that their findings are acted upon by the executive (van Zyl, Ramkumar, and de Renzio, 2009). They lack sufficient authority to ensure that audit findings and recommendations are acted on within the public resource management process. In many poor countries, the SAIs simply lack the capacity to fulfill their functions. They are underfunded, understaffed, under skilled, and constrained by very narrow mandates (World Bank as cited by van Zyl, Ramkumar, and de Renzio, 2009).

The Office of the Federal Auditor General of Ethiopia being the SAI of the country faces serious challenges when conducting audits. In all the years from 2009-2015, The Auditor General, when addressing the parliament, in his annual speech has said that lack of competent and skilled manpower, limitation and lack of awareness on performance audits among auditees and unwillingness & reluctance to implement the recommendations set on audit reports has caused the OFAG to fall short of achieving what it has planned to do (OFAG annual report as cited by Birhanu, 2016). The Auditor General in another similar speeches of his made from 2016-2019 said that auditees’ failure to provide evidences and documents timely is affecting the audit schedule (OFAG annual report, 2016-2019).

Various researches were conducted to explore factors that affect effectiveness of both internal and external auditing in public sectors. Baharud-din, Shokiyah, and Ibrahim (2014) in their study

“Factors that Contribute to the Effectiveness of Internal Audit in Public Sector”, investigated the factors that contribute to the effectiveness of internal audit in the Malaysian public sector and stated competency of the auditors, independence and objectivity of internal auditors and management support as causes that affect the effectiveness of internal audit function. Similarly Huong(2018) in his paper “Factors Affecting the Effectiveness of Internal Audit in Companies” examined factors influencing internal audit effectiveness in Vietnam context and revealed that the effectiveness of internal audit is influenced by: the independence of internal audit, the competence of internal audit, the management support for internal audit, and the quality of internal audit. According to Birhanu (2016) The SAI legal mandate, Availability professional competence and Post audit follow up are the main factors that affect performance audit effectiveness. Edessa (2019) in her paper “Factors Affecting Effectiveness of Government Audit” identified that audit quality, independence of government auditors, cooperation from the auditee and resource constraint are the factors affecting government audit effectiveness. Mihret and Yismaw(2007) in their study aimed at examining factors impacting the effectiveness of internal audit services and how do audit quality, management support, organizational setting, auditee attributes, and the interplay among them, suggested public sector organizations are required to have an internal audit function to support effective management in managing public funds. So many findings from the research done linked the effectiveness of the internal auditor contribution to effective management and internal control of the agency.

As it is indicated above, majority of the previous studies especially those conducted in our country focused on the underlying factors affecting the effectiveness of internal audit in public sectors a few has been done on the factors affecting the effectiveness of external audit and those few studies made on external audit considered only performance audit. The most commonly conducted type of audit in external audit engagements which is regularity audit is left untouched. Therefore intending to fill the gap where the factors affecting the effectiveness of regulatory audit is ignored; this study examined factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia. It tried to examine the impact of Legal Mandate, audited public sectors’ Cooperation and Auditors’ Competency on regularity audit effectiveness.

1.3 Research questions

1. What is the effect of supreme audit institutions' legal mandate on regularity audit effectiveness in the office of federal auditor general of Ethiopia?
2. What is the effect of auditees' cooperation on regularity audit effectiveness in the office of federal auditor general of Ethiopia?
3. What is the effect of auditors' competency on regularity audit effectiveness in the office of federal auditor general of Ethiopia?

1.4 Research Hypothesis

The researcher developed the following directional hypothesis based on the related literatures (Baharud-din, Shokiyah and Ibrahim, 2014; Tigist, 2019; Birhanu, 2016).

H1: SAI legal mandate has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

H2: Auditees' cooperation has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

H3: Auditors' competency has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

1.5 Research Objectives

1.5.1 General Objective

- ❖ This study aimed to examine factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia.

1.5.2 Specific Objectives

The specific objectives of this study were:

1. To examine the effect of supreme audit institutions' legal mandate on regularity audit effectiveness in the office of federal auditor general of Ethiopia.
2. To examine the effect of auditees' cooperation on regularity audit effectiveness in the office of federal auditor general of Ethiopia.
3. To examine the effect of auditor's competency on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

1.6 Significance of the Study

The study provided clear overview of public sector audit; particularly financial public sector audit. It also created awareness among the public on the importance of effective public sector audit. Moreover the findings of the study highlighted the factors affecting regularity/financial audit. The recommendations that the study proposed may help the Office of Federal Auditor to improve the effectiveness of regularity audit. Finally, the study was of immense importance to researchers as a basis of further research.

1.7 Scope of the study

Though the Office of Federal Auditor General (OFAG) undertakes a financial, performance, environment, information technology, control, special and other audits of the offices and organizations of the Federal Government (Proclamation No. 982/2016) this study was delimited to regulatory/financial audit only; it did not consider other types of audits performed by the supreme audit institution. The office has five branches at Addis Ababa, Awassa, Bahirdar, Jimma & Diredawa. The study was conducted on the Head Office of The Office of the Federal Auditor General in Addis Ababa. It was confined to the Head Office so that to investigate the issue in-depth and to make the study manageable.

1.8 Limitation of the study

The study on the regularity/financial auditors of OFAG as a result it might fail to capture perspectives of performance and the rest auditors of the office, audited public sectors, media, and the legislature. This may in turn limit the generalizability of findings.

1.9 Organization of the paper

This paper is organized into five chapters. Chapter one discussed the background, problem statement, research questions and objectives, significance, the scope and limitations of the study. Chapter two reviewed the relevant literature related to the topic. Chapter three outlined the research methodology and design. Chapter four presented the data analysis, presentation and interpretation part of the study and the final chapter provided the summary, conclusion and recommendation of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review endeavored to provide a theoretical body of knowledge related to Regularity audit effectiveness. It is divided into four sections; the first section dealt with theoretical literatures related to major concepts on the History of Supreme Audit Institution (SAI) in Ethiopia; definition, features, objectives, standards and types of auditing, types of auditors, Audit models and public sector auditing. The second section provided theoretical literatures on the three variables of the study. The third section reviewed empirical literatures relating to public sector audit effectiveness. The last section of the literature review presented conceptual framework of the study.

2.2 Theoretical literature review

2.2.1 History of Supreme Audit Institution (SAI) in Ethiopia

The main objectives of government auditing are to express opinion on financial statements and related issues of legality, regularity and fraud as well as examining whether government institutions are operating economically, efficiently and effectively. To achieve these objectives every country establishes a supreme audit institution (SAI) whose independence is protected by law (OFAG Magazine, 2011).

Supreme audit institutions (SAIs) are national-level watchdog agencies responsible for the audit of government revenue and expenditure. By scrutinizing public financial management and reporting they provide assurance that resources are used as directed by national governments (Evans, 2008). An independent and professional supreme audit institution (SAI) is an important actor in a country's accountability chain. It is a government entity whose external audit role is established by the constitution for supreme law-making body (OECD, 2020). SAIs, which go by various names in different countries e.g. Office of the Auditor General, National Audit Office may provide substantial value by helping improve grant implementation (Aidspan, 2018).

The history of Ethiopia's supreme audit institution (SAI) is related to the 1931 constitution, which stated the importance of the proper collection of the government revenue and the necessity of setting procedures to control expenditures. However, the constitution failed to stipulate the need for government auditing and establishing a SAI. But later, proclamation No. 69 of 1944 established the first legal audit institution called Audit Commission. Under this proclamation the

Commission was responsible for the audit of the accounts of the Ministry of Finance, whereas the financial transactions of other ministries were inspected and controlled by the Ministry of Finance itself (OFAG Magazine, 2011).

Articles 120 and 121 of the revised constitution of 1955 established a separate and independent audit entity accountable to the emperor and to parliament. These articles required the auditor general to report regularly to the emperor and parliament on the financial operations of the government. The articles also empowered the auditor general to access all books and records pertaining to government accounts (OFAG Magazine, 2011).

The Office of the Federal Auditor General of the Federal Democratic Republic of Ethiopia was established as an autonomous body, through the enactment of Proclamation No. 68/1997, re-established through Proclamation No. 669/2010 and recently through proclamation Number 982/2016 (QAR, 2017).

The Federal Auditor General, the chief executive of OFAG is appointed in terms of article 101 (1) of the Constitution and article 6 (1) of Proclamation 982/2016 and is accountable to the House of Peoples' Representatives. The main mandate of the OFAG is to provide independent assurance to the federal government that adequate and reliable information for proper leadership and administration of the country's economy is functioning as legislated as well as to enhance accountability, transparency and good governance across the structure of the Federal government institutions and public bodies (QAR, 2017).

2.2.2 Auditing Defined

The term auditing has been defined by different authorities.

According to Soltani (2007) Auditing is the process of providing assurance about the reliability of the information contained in a financial statement prepared in accordance with generally accepted accounting principles or other rules.

The International Audit and Assurance Standard Board (IAASB), a sub-committee of the International Federation of Accountants (IFAC) defined an audit as an independent examination of, and expression of opinion on the financial statements of a business enterprise by an appointed auditor in accordance with his terms of appointment and in compliance with the relevant statutory and performance requirements. (Adeyemi, Okpala and Dabor, 2012)

The Canadian Comprehensive Audit Foundation (as cited in Institute of Internal Auditors, 2012) argues that audit serves an accountability relationship and it is the independent, objective assessment of the fairness of management's representations on performance or the assessment of management's systems and practices, against criteria, reported to a governing body or others with similar responsibilities.

According to Visser and Erasmus (as cited by Monkwe,2016) auditing is a procedure concerned with the gathering of essential information or evidence designed to render an informed, professional and independent opinion on the assertions and demonstration made in management reports and supporting documents. Independent certification and reassurance about the credibility and completeness of financial and interrelated records explain what auditing entails.

Monkwe (2016) understands auditing as an official process of examining and evaluating the assertions about the organization's economic actions and events with the aim of determining the degree to which the said assertions correspond with established procedures or regulations, and ultimately communicating the findings to interested parties. In its broadest perspective, auditing is the method of demonstrating to the auditees' economic actions and proceedings of an entity.

According to Lima Declaration, (ISSAI 1, Section 1) the concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent or at least render more difficult such breaches.

2.2.3 Features and Objectives of Auditing

While each type of auditing has its own distinguishing features the followings are the common features of auditing in general:

- a. Audit is a systematic and scientific examination of the books of accounts of a business;
- b. Audit is undertaken by an independent person or body of persons who are duly qualified for the job.

- c. Audit is a verification of the results shown by the profit and loss account and the state of affairs as shown by the balance sheet.
- d. Audit is a critical review of the system of accounting and internal control.
- e. Audit is done with the help of vouchers, documents, information and explanations received from the authorities.
- f. The auditor has to satisfy himself with the authenticity of the financial statements and report that they exhibit a true and fair view of the state of affairs of the concern.
- g. The auditor has to inspect, compare, check, review, scrutinize the vouchers supporting the transactions and examine correspondence, minute books of shareholders, directors, Memorandum of Association and Articles of association etc., in order to establish correctness of the books of accounts. (DPHU, 2013)

According to ISSAI 200 in conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate the result of the audit, in accordance with the auditor's findings.

2.2.4 Auditing Standards

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of financial statements. The existence of generally accepted auditing standards helps in maintaining a uniformly high quality of audit work by all independent SAIs and public accountants. Some of these international and generally accepted guidelines are explained below.

1. The International Public Sector Accounting Standards(IPSAS)

International Public Sector Accounting Standards are international accounting standards for application by public sector entities to prepare their general purpose financial reports. They are the public sector equivalent of International Financial Reporting Standards (IFRS), which apply to private sector companies. The majorities of IPSAS address financial reporting topics already covered by IFRS and require essentially the same accounting treatment as in their equivalent IFRS or International Accounting Standard (IAS) (Jensen, 2016). The International Public Sector Accounting Standards Board (IPSASB) which is an independent standard setting board supported by the International Federation of Accountants (IFAC) issues IPSAS for use by the public sector around the world in the preparation of financial statements. The development of the IPSAS has its origins in the accounting profession as a way to improve the transparency and accountability of governments and their agencies by improving and standardizing financial reporting. As of January 2019 the IPSASB had issued 42 IPSAS among which the last two (IPSAS 41&42) are effective beginning on or after 1 January 2022, with earlier application encouraged (Van schaik, 2019).

Proclamation No.847/2014; a Proclamation to provide for financial reporting in Ethiopia, states that the financial reporting standards to be used when preparing financial statements shall be International Public Sector Accounting Standards applicable to charities and societies. Further OFAG evaluates the acceptability of the financial reporting framework centrally at the beginning of the annual audit cycle for all ministries, departments and agencies as the one framework will be applicable to most if not all. The central evaluation assesses if all ministries, departments and agencies are preparing financial statements by using IPSAS cash basis (OFAG, 2019).

2. International Standards on Auditing (ISA)

International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information. Audits should be conducted in accordance with ISAs (ISA 200.6). Currently, there are 36 International Standards on Auditing (ISAs). These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting

high-quality international standards for auditing, & assurance. In doing so, the IAASB enhances the quality and consistency of practice throughout the world and strengthens public confidence in the global auditing and assurance profession. The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession, and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant (iaasb, 2016).

According to proclamation No.847/2014, the auditing standards to be used by auditors in Ethiopia shall be the international standards for auditing (ISA) issued by the international federation of accountants.

3. International Standards of Supreme Audit Institutions (ISSAIs)

The International Standards of Supreme Audit Institutions, ISSAI, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. The INTOSAI practice notes (which explain how to apply each ISA) in combination with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) constitute ISSAI. The ISSAIs aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandate. The INTOSAI Financial Audit Guidelines represent the fourth level (Auditing Guidelines) of the International Standards of Supreme Audit Institutions (ISSAI) Framework, where the Founding Principles constitute level 1, the Codes for Supreme Audit Institutions the second level and the Fundamental Auditing Principles the third level (including the INTOSAI Auditing Standards) (ISSAI-100).

Level 1 of the ISSAI framework contains the founding principles of INTOSAI. ISSAI 1, The Lima Declaration from 1977, calls for the establishment of effective Supreme Audit Institutions and provides guidelines on auditing precepts. Level 2 sets prerequisites for the Functioning of Supreme Audit Institutions (ISSAI 10-99) The Prerequisites for the Functioning of Supreme Audit Institutions contains INTOSAI's pronouncements on the necessary preconditions for the proper functioning and professional conduct of SAIs. These include principles and guidance on independence, transparency and accountability, ethics and quality control. The prerequisites may

concern the institution's mandate and further legislation as well as the established procedures and daily practices of the organization and its staff. Level 3 ISSAI are the fundamental principles for public sector auditing, which provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework. ISSAI 100 includes the fundamental principles of public sector auditing and establishes the basic concepts and principles shared by the three areas of auditing (financial, compliance and performance audit). The specific principles of the three audit types are in ISSAI 200, 300 and 400. The auditing standards at level 4 translate the fundamental auditing principles into more specific, detailed and operational standards that auditors can resort to daily in the conduct of auditing tasks. The purpose of the standards is to provide a basis for development of audit methodologies (and manuals) on public sector auditing that individual members of INTOSAI may apply. The general auditing guidelines (ISSAI 1000-4999) contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They define the internationally recognized current best practices within their general scope of application (IDI, 2020).

The scope of the audit mandate will determine the scope of the standards to be applied by the SAI (ISSAI-100). The office of auditor general Ethiopia has adopted the ISSAI framework as its frame of reference for its audit methodology.

2.2.5 Types of Audit

Audits are often viewed as falling into three major categories (Whittington and Pany, 2016):

Financial/Regularity auditing

A financial audit is an audit of the financial accounting information of an entity. An audit of financial statements ordinarily covers the balance sheet and the related statements of income, retained earnings, and cash flows. The goal is to determine whether these statements have been prepared in conformity with generally accepted accounting principles. Financial statement audits are normally performed by firms of certified public accountants; however, internal auditors often perform financial audits of departments or business segments. (Whittington and Pany, 2016)

Financial auditing assesses the accuracy and fairness of both the accounting procedures utilized by a government agency and the financial statements it produced. The primary question that it investigates is: "Do the audited statements or reports accurately portray the financial condition

and/or activities of the audited entity?” Without such audits it is very unlikely that we would know what the government does with public resources because reliable documents with this information would not be otherwise published (Van Zyl, Ramkumar, and de Renzio, 2009). Often performed by external auditors either commercial auditors or auditors from another branch of the public sector this type of audit focuses on accounting appropriately for assets and expenditures as reported by the public sector entity. In addition to the financial statement opinion, financial audits also can examine the reliability of specific financial information, compliance with relevant procedures and rules, or the safeguarding of assets. (Institute of Internal Auditors, 2012)

Regularity audit includes the assessment of Completeness, accuracy and validity of information included in the financial statements, the effectiveness of the design and implementation of internal controls and compliance with relevant laws and regulations. According to AFROSAI-E (2013) Regularity audit embraces:

- Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- Reporting of any other matters arising from or relating to the audit that the SAI considers necessary to disclose. (*ISSAI 1200E P4*)

Compliance audits

Compliance auditors assess whether funds were used for the purposes for which they were appropriated by the legislature and in compliance with the relevant laws and regulations. The primary question that they ask is: “Did the audited entity comply with applicable laws and

regulations?” Transactions are reviewed to determine whether government departments and agencies conformed to all pertinent laws and regulations. Without compliance audits we would not know, for example, whether budgeted resources were spent on the items approved by the legislature (Van Zyl, Ramkumar, and de Renzio, 2009).

Performance audits or value for money (VFM) audits

Auditors systematically gather evidence to assess aspects of program performance beyond financial reporting. Because the types of public sector services are broad, the types of objectives appropriate for performance auditing will vary. Also, depending on the jurisdiction, the range and focus of performance auditing will vary. In its broadest context, performance audit objectives might assess:

Effectiveness – evaluates program accomplishments. Has a program achieved its objectives? What are the program’s outcomes or results, both intended and unintended?

Efficiency – examines productivity, unit cost, or indicators such as utilization rates, backlogs, or service wait times. Do operations maximize outputs in relation to costs and other resource inputs (e.g., number of license renewals per staff hour)?

Economy – examines the extent to which a public sector operation has minimized its use of inputs (e.g., money, staff resources, equipment, or facilities) consistent with the quality needs of the program. For example, an economy audit may evaluate the validity of a competitive procurement process to ensure that costs were controlled (Institute of Internal Auditors, 2012).

2.2.6 Types of auditor [Internal and External Auditors]

Internal auditors

Internal auditors are auditors employed by the organization to carry out an independent appraisal within the organization, which operate as a service to the Organization by measuring and evaluating the effectiveness of internal control system Internal auditors of public bodies are auditors employed to: -

- Provide an independent and objective opinion to the Head of public body on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the public body’s agreed objectives. .

- Provide an independent and objective consultancy service specifically to the management. (MOFED, 2005)

External auditors

External auditors are auditors are entirely independent of the audited entity. Their duty is to report primarily to third parties (in the case of audit of limited companies they report to shareholders; in the case of Government of Ethiopia the external auditor is the Office of the Auditor-General which reports to parliament). External auditors in undertaking an audit of financial statements will: -

- Carry out procedures designed to obtain sufficient and appropriate audit evidence, in accordance with Generally Accepted Auditing Standards to determine with reasonable confidence whether the financial statements are free from material misstatement;
- Evaluate the overall presentation of the financial statements, in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards;
- Issue a report containing a clear expression of their opinion on the financial statements. (MOFED, 2005)

2.2.7 Auditing models

Chêne (2018) explains that there are different models for audit institutions, the most common of which are the Westminster model, the judicial or Napoleonic model, and the board or collegiate model.

Westminster model

The Westminster model, also known as the Anglo-Saxon or parliamentary model is used in the United Kingdom and most Commonwealth countries, including many in sub-Saharan Africa. In addition, a few other European and Latin American countries have adopted the model, including Ireland, Denmark, Peru and Chile. The Westminster model is intrinsically linked to a system of parliamentary accountability. Typically, parliament authorizes future expenditure by the executive branch. All public bodies are expected to produce annual accounts, which are then audited by the SAI, which produces and submits its audit findings to parliamentary body, such as

a public accounts committee (PAC). In turn, the PAC issues its own reports and recommendations, to which the government responds. (DFID as cited by Chêne, 2018)

The Westminster model is characterized by a national audit office (NAO) with a single head, often called the auditor general, who may be an officer of parliament. All rights, powers and responsibilities are typically vested in the auditor general personally, rather than in the NAO as an institution, with strong safeguards to ensure the independence of the auditor general. The role of auditor general may be combined with that of comptroller, whose function is one of control rather than audit and is performed in advance of expenditure being incurred. Under such a model, the ability of the SAI to challenge corruption depends on the powers and authority of the position and its independence from other national institutions. The auditor general needs to have high levels of personal integrity and inspire trust among all stakeholders as there is a risk of abuse of power by concentrating so much power on a single individual, particularly in states where corruption and misuse of authority are endemic. (DFID as cited by Chêne, 2018).

Judicial model

The judicial or Napoleonic model is used in the Latin countries in Europe, Turkey, Francophone countries in Africa and Asia, several Latin American countries including Under this model, the SAI, often a court of accounts or *cour des comptes*, is part of the judicial system and as such operates independently of the executive and legislative branches, having only limited interaction with parliament. The court members are judges who can impose penalties or corrections on audited officials. In some countries, the SAI may have an ex ante control function as well as an ex post audit function, meaning it also controls the disbursement of funds. The judicial model relies on Ministry of Finance officials based in line ministries and other public bodies operating as public accountants. These officials are tasked with ensuring the proper expenditure of public funds and producing their host institution's annual financial statements. These financial statements are then audited by the SAI, which assesses the legality of the public accountant's actions (DFID as cited by Chêne, 2018).

Collegiate model

The board or collegiate system is used by a number of other countries, including Germany, the Netherlands, Argentina, Indonesia, Japan and the Republic of Korea. Under such a model, the

SAI takes the form of a college or governing board composed of a number of members who take decisions jointly. Members are normally appointed for a fixed term by a vote of parliament. Decision-making power within the SAI is shared and consensual. While inclusive, this can make the decision making process slow and cumbersome. As members are appointed by parliament, the independence and impartiality of the college can be undermined if a political party has a dominant position and can influence the appointment process, especially if the terms of the SAIs board members coincide with the parliamentary terms. This can exacerbate further the risks of political influence (Martini as cited by Chêne, 2012).

2.2.8 Public sector auditing

The term public sector auditing is used interchangeably with government auditing in the context of this study. According to World Bank document on Country Financial Accountability Assessment (2003) it is an essential element of effective and democratic governance. It provides an independent information, assurance and advice to the legislature on whether public finances are being used in an effective and efficient manner. Public sector auditing it is relevant to the efficient operation of government departments. Public sector auditing is important because it channels employees to follow policies, guidelines and procedures as well as reduce fruitless and unauthorized expenditure (financial management practices). If public sector auditing is not conducted timeously, the endemic inefficiency in government departments is bound to continue (Monkwe, 2016).

Government auditing, the fundamental purpose of which is to monitor, ensure and appraise the accountability of government, is an important institutional arrangement in modern government governance. By monitoring the operation of public power, especially how public resources are used, government auditing can strengthen accountability and reduce the abuse of power and resources (Liu and Lin, 2012).

The public sector represents a principal-agent relationship. The officials acting as the principal's (the public) agent must periodically account to the principal for their use and stewardship of resources and the extent to which the public's objectives have been accomplished. An effective audit activity reduces the risks inherent in a principal-agent relationship. The principal relies on the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agent uses the resources in accordance with the

principal's wishes. The need for a third party to attest to the believability (credibility) of the financial reporting, performance results, compliance, and other measures arises from several factors inherent in the relationship between the principal and its agent:

1. **Conflicts of interest** – Agents may use their resources and authority to benefit their own interests rather than the principal's interests.
2. **Remoteness** – Operations may be physically removed from the principal's direct oversight.
3. **Complexity** – The principal may not possess the technical expertise needed to oversee the activity.
4. **Consequence of error** – Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens' lives and health. (Institute of Internal Auditors, 2012)

Although public sector auditing has broadened its focus from individual transactions to control systems and program operations, public sector auditing should retain the defining characteristics that are the basis of its credibility the value it provides to the governance process — including:

- Independence from the parties being audited and an objective attitude toward the subject under audit.
- Use of systematic processes to collect and analyze substantial and appropriate evidence.
- Comparison to criteria for formulating conclusions. Examples of criteria include standards, goals/targets, benchmarks, and laws.
- Use of widely accepted professional audit standards. (Institute of Internal Auditors, 2012)

2.2.9 Factors Affecting Effectiveness of public sector auditing

There are several factors or determinant elements that affect effectiveness of public sector auditing this study will try to examine the effect that Legal Mandate, Audited public sectors' cooperation and Auditors' Competency have on public sector Regularity audit effectiveness.

Legal Mandate and Audit Effectiveness

The Lima declaration (ISSAI 1) and Mexico declaration (ISSAI 10) as well as ISSAI 11 state that the mandate of the SAI should be appropriately and broadly prescribed in the constitution or

a comparable legal framework that may not be amended without a two thirds legislature majority vote and/or in line with the national laws. A SAI's mandate refers to its statutory or formal independence as laid down in the legal framework such as the constitution, laws, and regulations. The nature of the SAI mandate involves who it itself is accountable to and reports to, that is, its cooperative relations (reporting procedures). It is also composed of other aspects e.g. scope of responsibilities (Wang and Rakner, 2005). The Institute of Internal Auditors (2012) argues that because public sector auditing is key to good public governance, it is crucial that it maintains the right resources for the right amount of time with an appropriately broad mandate to achieve the organization's governance objectives. The public sector audit activity's mandate should be as broad as possible to enable it to respond to the full scope of the entity's activities. Gustavson (as cited by Chêne, 2012) mentions that as a result of different legal and institutional frameworks, the mandate and exact nature of audit assignments of SAIs vary greatly by country.

According to Van Zyl, Ramkumar, and de Renzio (2009) SAIs lack sufficient authority to ensure that audit findings and recommendations are acted on within the public resource management process; in many cases SAIs manage to conduct timely audits and make good recommendations for corrective action, only for these to be ignored or not fully implemented by the executive.

Auditees' Cooperation and Audit Effectiveness

Cooperation of auditee organization with auditor can make completion of audit easy and effective, but here two important issues rise. Firstly auditee does not cooperate to produce records in a timely manner which affects the completion of the audit reports in a negative way. As one of the auditors said, "Auditee doesn't cooperate and is never willing to be audited. Limited access to records and intentional delays in production of records by auditee causes the audit to be ineffective." Second issue is denial of audit findings. Auditee does not accept audit findings. They pressurize auditors to change audit reports. If evidences against auditee are strong, auditee has to accept them. As one of the auditors said, "If audit evidence is strong, they have to accept audit findings. If auditee justifies paras, paras are excluded, but denial always exists..... Audit paras are not changed until auditee justifies them otherwise they have to accept if strong evidences exit." (Masood and Lodhi, 2015)

The institute of internal auditors (2012) states that that the legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed public sector officials for internal audit to be effective. Similarly, Baharud-din, Shokiyah, and Ibrahim (2014) explain that the support and commitment of management also have the certain impact to make sure IA is functioning effectively; the success of IA function will depend on the strength of management's support for the auditing process. Though both focused on public sector internal audit the principle applies for audit as a whole.

Auditors' Competency and Audit Effectiveness

Competency can be related to the ability of an individual to perform a job or task properly based on the educational level, professional experience and the effort of the staffs for continuing professional development. Auditors' competency determines the effective auditing in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach (Baharud-din, Shokiyah, and Ibrahim,2014). To fulfill their responsibility auditors are expected to be skillful, competent and updated with changes in their profession and technology. Other professions, like statistics, are also helpful in facilitating the audit work and increasing the reliability of their information provided (Beyashe, 2008). The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards (Institute of Internal Auditors, 2012).

Supreme Audit Institutions should possess competent audit staff to serve the nation and fulfill the need of the public at large (HESPI, 2016). Lack of expertise creates greater dependency on the body being audited and reduces opportunities to be critical with regard to the information obtained through the audit process (Gustavson as cited by Chêne, 2012).To meet the quality requirements specified in the Auditing Standards, the SAI should have a program to ensure that its staff maintains professional proficiency through continuous education and training. Continuing education ensures that auditors routinely undergo training to continuously maintain and enhance their professional capabilities (Al-Khaddash, Al Nawas, Ramadan, 2013). The skills and knowledge that SAIs require for their professional qualifications will depend on their mandate and the scope of their audit field (The INTOSAI Capacity Building Committee, 2010).

2.3 Empirical Literature Review

Various researchers have paid attention to the study of factors affecting public sector auditing focusing on either of the two types of audit engagements; Internal and External or considering the three types of audits i.e. Financial, Performance and Compliance.

Birhanu (2016) investigated factors affecting performance audit effectiveness, the auditees' duties and the public accounting committee contribution related to performance audit and its effectiveness by drawing the practice of Ethiopian Office of Auditor General from 2009-2015. The study adopted quantitative method of research approaches to test a series research hypothesis. Specifically, it used survey of questionnaire analysis of office of federal auditor general' performance auditors, government ministry on which performance audit has been already conducted during the six years from 2009-2015 and House of peoples representative's public accounting committees' response. The findings of the study showed that there is statistical significance positive relationship between legal mandates, adequate & competent professional, post audit follow ups and performance audit effectiveness. Besides, the study found that there is strongly significant positive relationship among adequate and competent professionals, post audit follow up and performance audit effectiveness.

Masood and Lodhi (2015) in their research explored the antecedents behind ineffective audits at government level in Pakistan. They collected data from fifteen government auditors of Pakistan through face to face in- depth interviews and concluded that massive corruption, conservative auditing methods, lack of cooperation from auditee, low morale of auditors, lack of financial independence, lack of power to take action against malpractices, lack of financial, technological and human resources, lack of qualified trainers and ineffective training institutes are antecedents of ineffective audits which ultimately make it difficult to bring transparency and accountability in the public sector.

Huong (2018) examined factors influencing internal audit effectiveness in Vietnam context. The study collected data from responses to a questionnaire addressed to chief audit executives and internal auditors of the Vietnam companies. The study used multiple regression analysis to examine the association between the effectiveness of the internal audit function and four principal factors. Its result revealed that the effectiveness of internal audit is influenced by: (1)

the independence of internal audit, (2) the competence of internal audit, (3) the management support for internal audit, and (4) the quality of internal audit.

Burka (2018) in his study examined the factors affecting the effective public procurement auditing, in federal public procurement agency of Ethiopia. The research tried to identify the effect of legal and regulatory framework, auditor's competence, organizational independence, the auditee's record management systems on effective public procurement auditing in the Federal public procurement and property administration agency .A descriptive survey research design was adopted using quantitative methods and used close ended questionnaires as a data collection instrument. The researcher found that there is strongly significant positive relationship among public procurement legal and regulatory framework, auditor's competence, organizational independence, the auditee's record management systems and the effective public procurement auditing in the Federal public procurement and property administration agency.

Baharud-din, Shokiyah and Ibrahim (2014) in their study investigate the factors that contribute to the effectiveness of internal audit in the Malaysian public sector. The study employed a cross sectional survey to investigate the effectiveness of internal audit. The result of the study showed that there were significant positive relationships among auditor competency, auditors' independence and objectivity and management support and the effectiveness of internal audit.

Beyashe (2008) in his project paper has identified the challenges faced by auditors of the Office of the Federal Auditor General, particularly financial auditors. The researcher collected data through questionnaires filled by selected auditors of OFAG, officials, and employees of auditees and interviews made with three senior auditors, two divisional heads and two department heads. Among large number of challenges the auditors encounter the study emphasized on challenges such as lack of knowledge and expertise, inadequate staff capacity and training, Lack of independence, Difficulty in collecting the necessary data for audit and lack of motivation.

H/Mariam (2018) in her study attempted to identify Prospect and Challenges of performance audit in case of three federal public organizations. The researcher identified three factors that challenge performance audit. This includes Auditors autonomy and interference from stakeholders, Budget and resource allocated to Audit Unit and Professional Audit standards. Descriptive survey research method with mixed research design was employed. To collect

primary data, the researcher used questionnaires and accordingly 51 questionnaires were distributed. The findings of the study revealed that top management of the public organization interfere in the work of performance auditor; the most common challenge of performance audit are unavailability of sufficient manpower, inadequacy of compensation paid for auditor, non-availability of other resource, lack of knowledge, skill and experience in conducting performance audit.; lack of properly identifying high risk area and developing evaluation criteria ; Lack of proper documentation from the auditee side and Lack of clearly identifying the accountable; the leadership lack attention ,knowledge, positive outlook for performance audit.

Edessa (2019) examined the factors that affect the effectiveness of government audit in the case of Office Oromia Auditor General (OOAG). The study tried to identify how audit quality, independency, cooperation from the auditee and Availability of Appropriate Resources can affect effectiveness of government audit. The researcher used Explanatory type of research method and quantitative research approach by using a primary source of data. The data had been collected through structured questionnaires distributed to 141 OOAG's government auditors. According to the regression output of the study; audit quality, Availability of Appropriate Resources and cooperation from the auditee significantly and positively contributed for the government audit effectiveness in the office of Oromia auditor general. The remaining variable; the independency of government audit was positively related with the government audit effectiveness but its contribution was not statistically significant.

2.4 Summary of Literature

According to the review of these particular studies, the researcher looked at the following gaps that are found in the literature.

1. Prior studies relating to factors affecting public sector auditing has either focused on internal or performance audit. There has not been done much on investigating those factors affecting the most widely carried out and earliest type of external audit which is financial/regularity audit. Financial/regularity audit is the type of audit which the SAI in our country was first authorized to carry out. Since then OFAG has devoted most of its resources and human power on performing this audit. Currently among the eight audit directorates that exist in the head office six of them are mainly carrying out

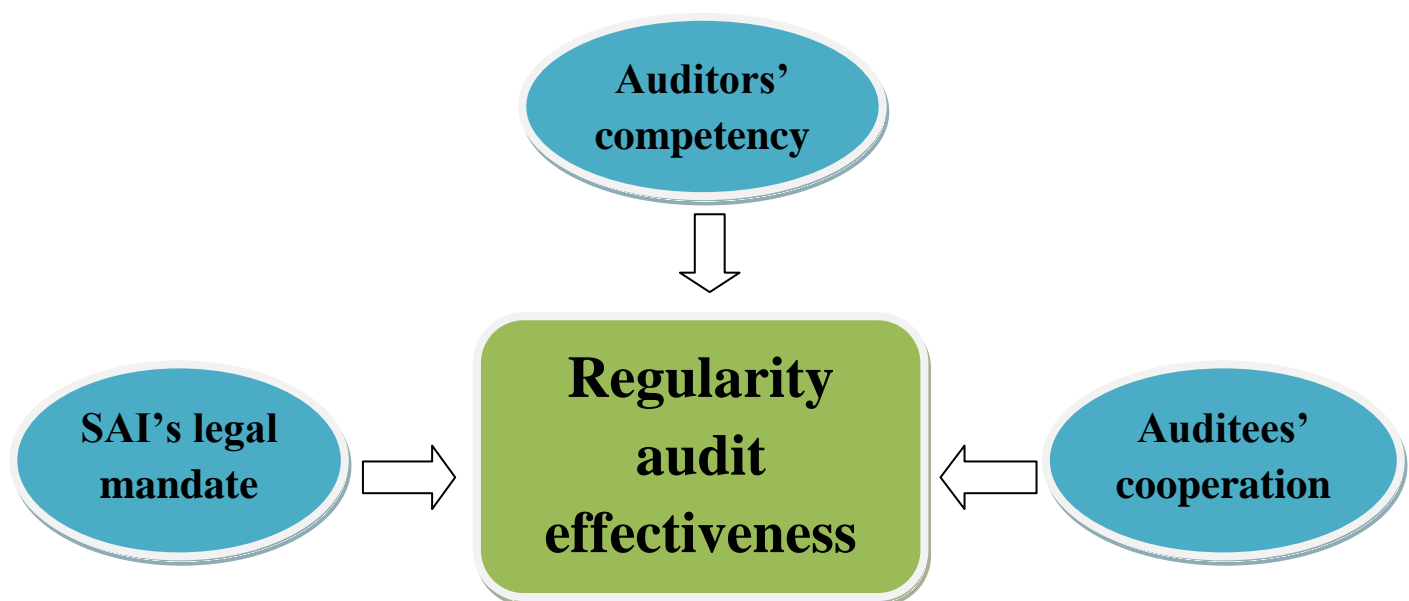
financial/regularity audit. On top of these realities it is through such audit a huge amount of resource is saved from being wasted or corrupted. However it has not been given due attention by our researchers.

2. The second gap is a methodological gap where some of the researchers (Birhanu, 2016; Burka, 2018) used descriptive survey method of research despite the fact that they were trying to establish and explain causal relationships between variables. Therefore this paper filled this methodological gap on the subject by using Explanatory type of research method which is more appropriate for such types of studies.

2.5 Conceptual Framework

Reichel and Ramey (as cited by Burka, 2018) define conceptual framework as a set of wide ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation. The purpose of this study is to examine the factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia. The independent variables identified are; SAI's legal mandate, auditees' cooperation, and auditors' competency and the dependent variable is regularity audit effectiveness. Figure1, below shows dependent and independent variables of the study and how they relate to each other.

Figure 1: Conceptual framework for Regularity audit effectiveness



Source: Adopted from (Tigist, 2019) and modified by the researcher

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data (Kothari, 1990). Since this research investigated factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia and tried to identify the effect of Legal Mandate, audited public sectors' Cooperation and Auditors' Competency on regularity audit effectiveness it is an explanatory type of research. According to Saunders, Thornhill & Lewis (2009) Explanatory researches are studies that establish causal relationships between variables and emphasize on studying a situation or a problem in order to explain the relationships between variables. Keeping this in view the research design this research used was a research design in case of Explanatory researches. The research employed a quantitative research approach. Quantitative approach can be construed as a research strategy that emphasizes quantification in the collection and analysis of data and that entails a deductive approach to the relationship between theory and research, in which the accent is placed on the testing of theories (Bryman and Bell, 2011). The quantitative approach uses statistical methods in describing patterns of behavior and generalizing findings from samples to the population of interest and employs strategies of inquiry such as experiments and surveys. If the research problem wants to identify factors that influence an outcome, or understanding the best predictors of outcomes, then a quantitative approach is the best choose. (Creswell as cited by Edessa, 2019). This approach was considered due to the fact that the objective of this research is not to generate a theory rather it is to test one. Besides the research problem focuses on identifying the effect of Legal Mandate, audited public sectors' Cooperation and Auditors' Competency on regularity audit effectiveness.

3.2 Sampling Design

The Office of Federal Auditor General has its head office at Addis Ababa and five branches at Addis Ababa, Awassa, Bahirdar, Jimma & Diredawa. As it is mentioned earlier the study only considered the head office at Addis Ababa. Currently, the Office has a total of 694 employees

208 of which are support service staffs and the remaining 486 are auditors. Among 486 auditors 412 of them are financial auditors and the rest 74 are performance auditors. The head office has 8 audit directorates; 6 of them are regularity audit directorates and the rest being performance audit directorates. Since the paper is concerned about regularity audit effectiveness the target population are 412 auditors working in the audit directorates engaged in regularity/financial audit.

The sample size was calculated by using the Slovin(1960) Formula, Which is used to calculate the sample size (n) given the population size (N) and a margin of error e= (0.05) or allowance for random error. The target population is 412 regularity/financial auditors. By using the formula $n=N/(1+Ne)$ the sample size (n) is calculated as follows:

$$n=412/(1+412*0.05^2) =412/2.03 = 203.$$

Hence questionnaires were randomly distributed to 203 regularity/financial auditors of OFAG (i.e.49% of the target population, 412).

3.3 Data type, source and methods of collection

The research used only primary type of data. The primary data which was a cross sectional data type was collected from regularity/financial auditors of OFAG through structured questionnaires. Questionnaires were distributed to 203 regularity/financial auditors of OFAG. The questionnaires were structured and close ended using a 5 point Likert scale as a rule for answer categories in order to give the respondents limited and pre-determined responses to choose from. The questionnaires were constituted by simple and easy questions for the respondents to answer.

3.4 Methods of Data Analysis and Interpretations

According to Kothari (as cited by Alemu,2015) after the data collected it has to be presented and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. Descriptive analysis techniques were used to summarize the collected data. Since the study has the objective of estimating relationship between regularity /financial audit effectiveness which is the dependent variable and the three independent variables (SAI's legal

Mandate, Auditees' cooperation and Auditors' competency) multiple regression analysis was applied. Multiple Regression Analysis refers to a set of techniques for studying the straight-line relationships among two or more variables. Multiple regression estimates the β 's in the equation (Kim as cited by Tigist, 2019). The Statistical analysis was conducted using STATA 14.2 version software.

3.5 Conceptual Model for Multiple Regression Analysis

Regressing the dependent variable over independent variables help to know the impact of each independent variable on the dependent variable. Moreover, the significance of each of the independent variables will be determined based on their p-values. Accordingly the following model is formulated for this research:

$$\mathbf{RAE = \beta_0 + \beta_1 * SAILM + \beta_2 * ACOR + \beta_3 * ACOM + u..... (1)}$$

Where; RAE: Regularity audit effectiveness.

SAILM: Legal mandate of supreme audit institutions.

ACOR: Auditees' cooperation

u: error term ACOM: Auditors' competency.

β_0 : is a constant, represents the RAE when all independent variables are zero.

$\beta_1, \beta_2 \& \beta_3$: are the coefficients associated with the corresponding variables.

3.6 Measurement of Variables

Dependent variable

Regularity Audit Effectiveness is the dependent variable in this study. The study used audit recommendations implemented, Saved public resources and percent of planned vs. completed audits as measures for Regularity Audit Effectiveness.

Independent variables

SAI's Legal mandate: This variable was measured by power to ensure that audit findings and recommendations are acted on, freedom to decide on reporting procedures, percent of classified (non-auditable) expenditures and access to relevant and timely information.

Auditees' Cooperation: delivering appropriate records and documentations, Auditees' attitude towards regularity audit and Acting on findings and recommendations was used to measure this variable.

Auditors Competency: Training hour, Professional and Technical skill, Experience, and Level of education of Auditors was used to measure this variable.

3.7 Validity and reliability

Validity refers to how accurately a method measures what it is intended to measure. To ensure validity of the research the researcher designated appropriate methods of measurement and ensured that the method and measurement technique are high quality. In addition appropriate sampling methods were used to select the respondents.

Reliability is an extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. In short, it is the stability or consistency of scores over time or across raters (Miller, 2015). Cronbach's alpha test was used to determine the consistency of the instrument in this study.

CHAPTER FOUR

Data Presentation, Analysis and Interpretation

Introduction

The objective of this study was to investigate factors affecting regularity audit effectiveness in case of office of federal auditor general of Ethiopia. In line with this objective Structured questionnaires using a 5 point Likert scale were distributed to financial auditors of OFAG. The questionnaire had two sections the first was related to profiles of respondents and the second section comprises questions related to regularity /financial audit effectiveness. This chapter presents the analysis and interpretation of the research findings obtained from the responded questionnaires. It begins with questionnaire response rate and reliability, followed by profiles of the respondents and it proceeds with analysis of descriptive statistics and multiple regression analysis of the variables under consideration.

4.1 Response Rate

Questionnaires were distributed to 203 regularity/financial auditors of OFAG. Out of 203 questionnaires distributed 156 were collected and the rest were not returned due to the reluctance of the respondents to complete the questionnaire and return it; this makes the response rate 76.8%. According to Mugenda (as cited by Edessa, 2019) a response rate of over 60% of the respondents is considered adequate. This shows that the response rate of the questionnaire in this study is beyond what is expected to represent the population under study and generalize findings.

4.1.1 Reliability Analysis

The study used Cronbach's alpha test to determine the internal consistency of the distributed questionnaires. Alpha was developed by Lee Cronbach in 1951 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1(Tavakol& Dennick, 2011). However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale (Gliem& Gliem, 2003). George and Mallery (as cited by Gliem& Gliem, 2003) provide the following rules of thumb: “_ > .9 – Excellent, _ > .8 – Good, _ > .7 – Acceptable, _ > .6 – Questionable, _ > .5 – Poor and _ < .5 – Unacceptable. As shown in table 4.1.1 below the value for Cronbach's alpha is 0.813 this indicates good internal consistency of the items in the study.

Table 4.1 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.813	.819	4

Source: Own computation spss output (2021)

4.2 Profiles of the respondents

4.2.1 Gender

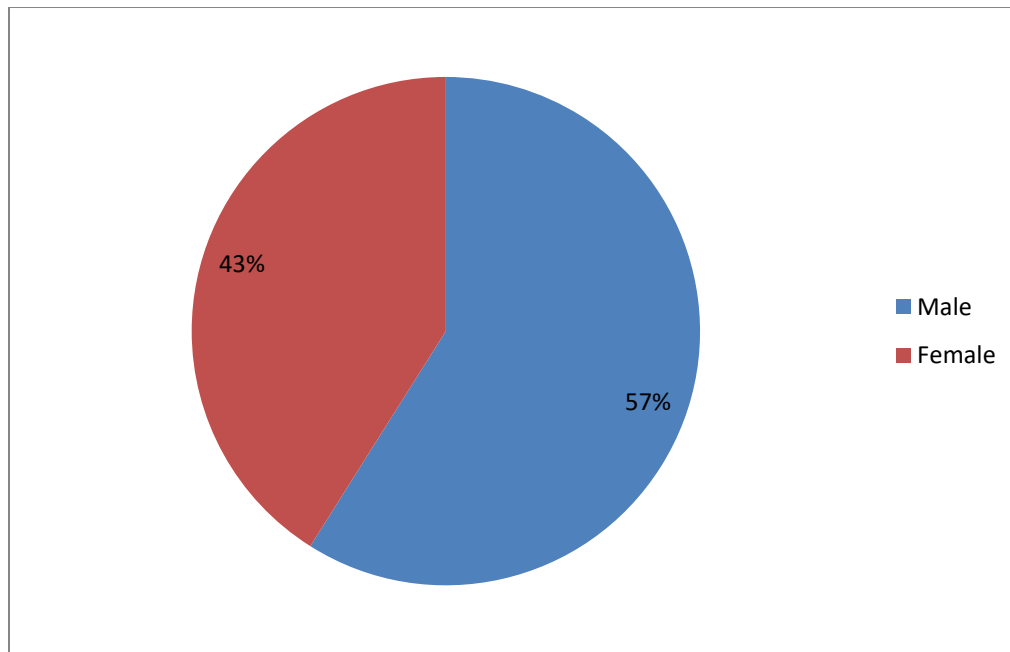


Figure 4.1 Respondents' Gender distribution

Source: Survey data, 2021

Of the total of 134 respondents which completed the questionnaire 89 (57%) were male and 67 (43%) female, as illustrated in Figure 4.1 above. This implies that the majority of the respondents were Male. The large difference in gender representation reflects true differences in the population. That is, there are a greater number of male financial auditors in OFAG.

4.2.2 Field of study

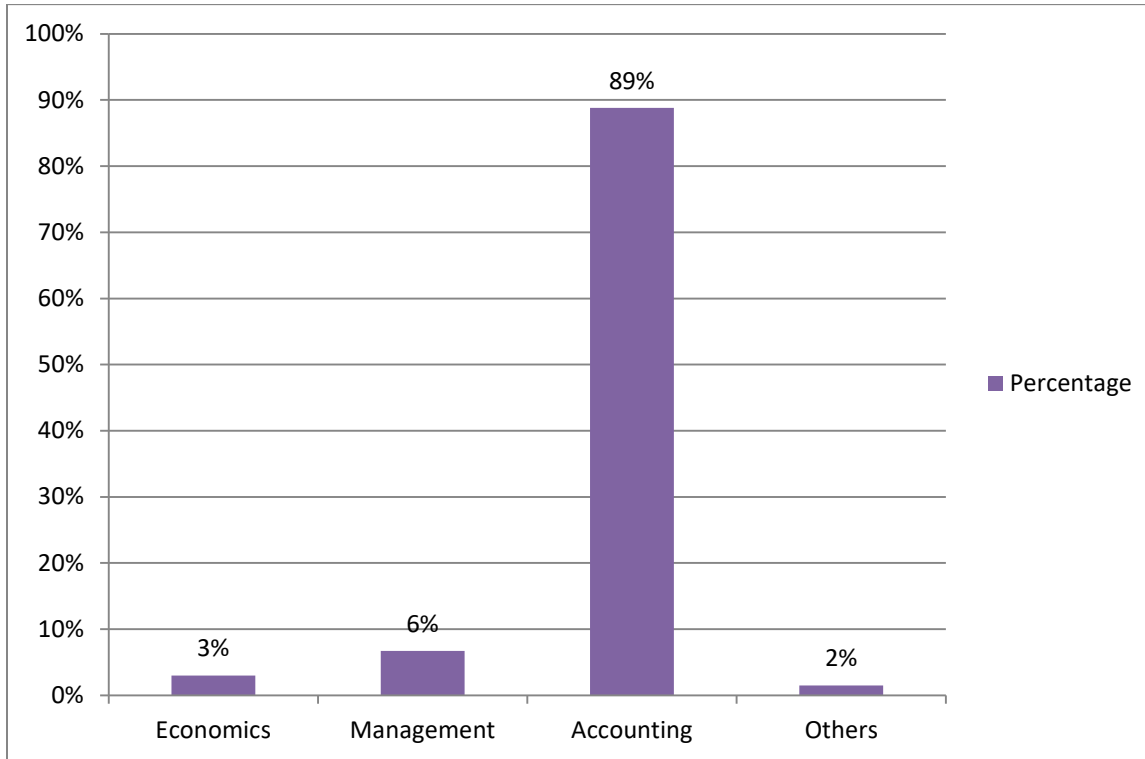


Figure 4.2 Respondents' Field of Study

Source: Survey data, 2021

As it is showed at figure 4.2 above, 119(89%) of the respondents have accounting background, 9(6%) are from management field of study, 5(3%) of them studied economics and the remaining 3(2%) respondents studied other business related fields. Since in contrast to other types of audits financial audit can only be done by auditors who studied the field accounting and finance if not few other related fields it is no surprise that majority of the respondents came from accounting background. In general, it is possible to conclude that the majority of the respondents came from field of study related to their profession and they understand the issue under study thereby giving useful information.

4.2.3 Current position

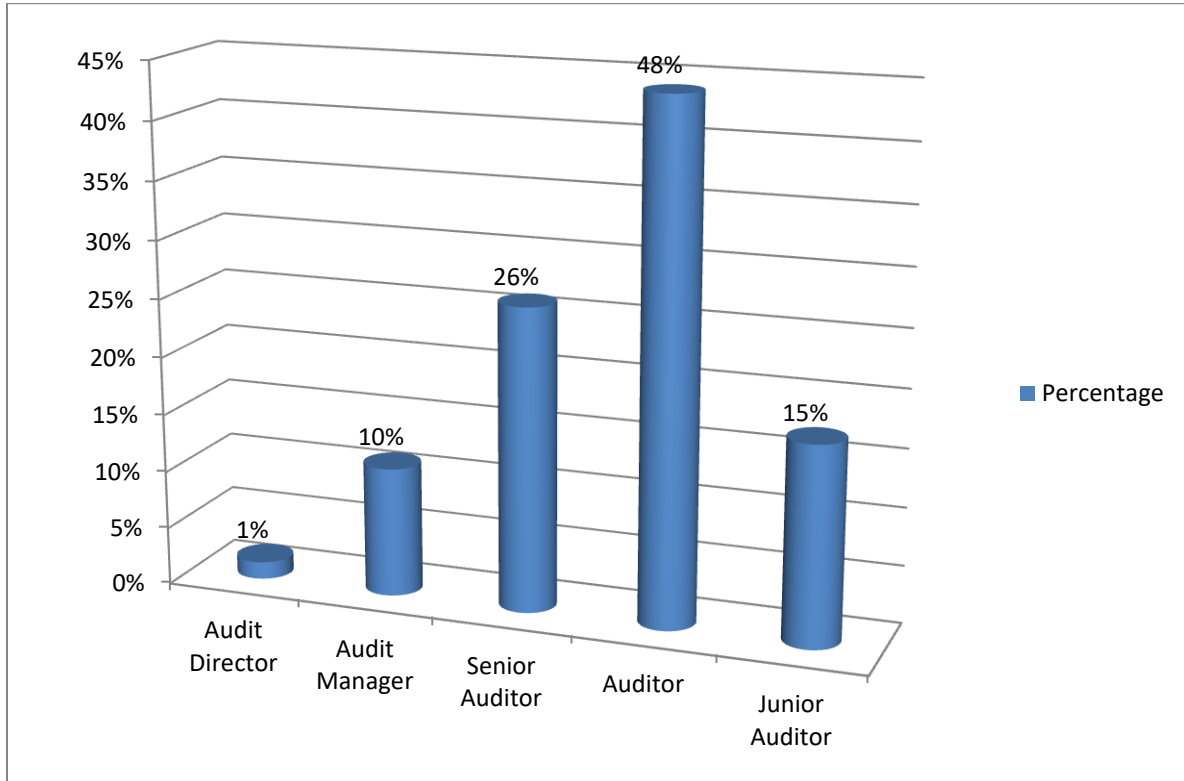


Figure 4.3 Respondents' Current position

Source: Survey data, 2021

Regarding the positions held by respondents, only two of them (1%) are Audit directors, 15 (10%) of them have a role of Audit Manager, 41 (26%) are senior auditors, 75 (48%) are Auditors and the rest 23 (15%) have a Junior Auditor role. 37% of the respondents that is, those having a position of senior auditor level and above have a management position and being an auditor 48% of them have also a considerable place in the office. This shows that majority of the respondents have roles in OFAG important enough to evaluate effectiveness of financial audit in OFAG.

4.2.4 Level of Education

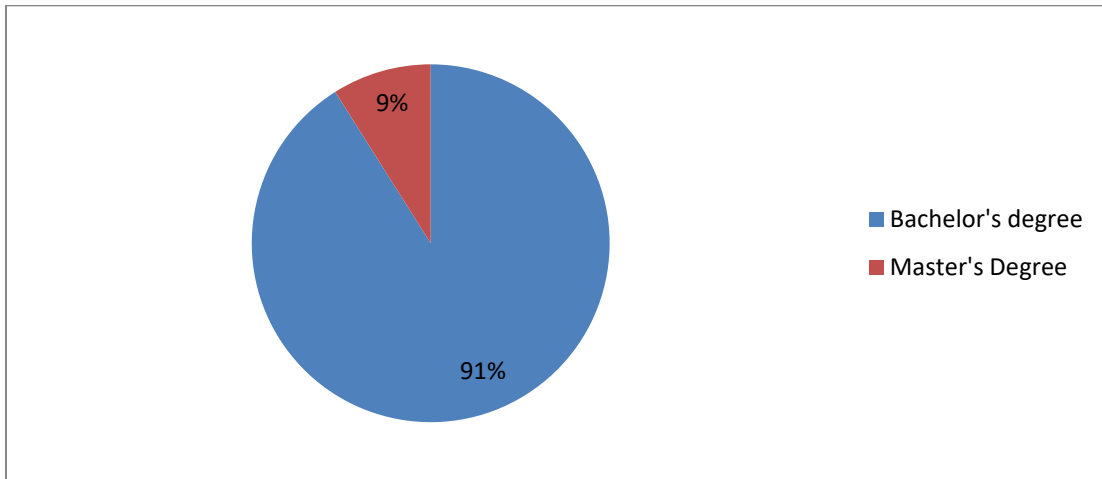


Figure 4.4 Respondents' Level of Education

Source: Survey data, 2021

In terms of educational level majority of the respondents i.e.122 (91%) were bachelor's degree holders and the remaining 12 (9%) have master's degree (see figure 4.4). These result shows that the respondents were well educated and they being representative sample of financial auditors in OFAG the result give us some insight that financial auditors in OFAG have the necessary Education level to conduct an effective Regularity/ Financial audit.

4.2.5 Level of Experience

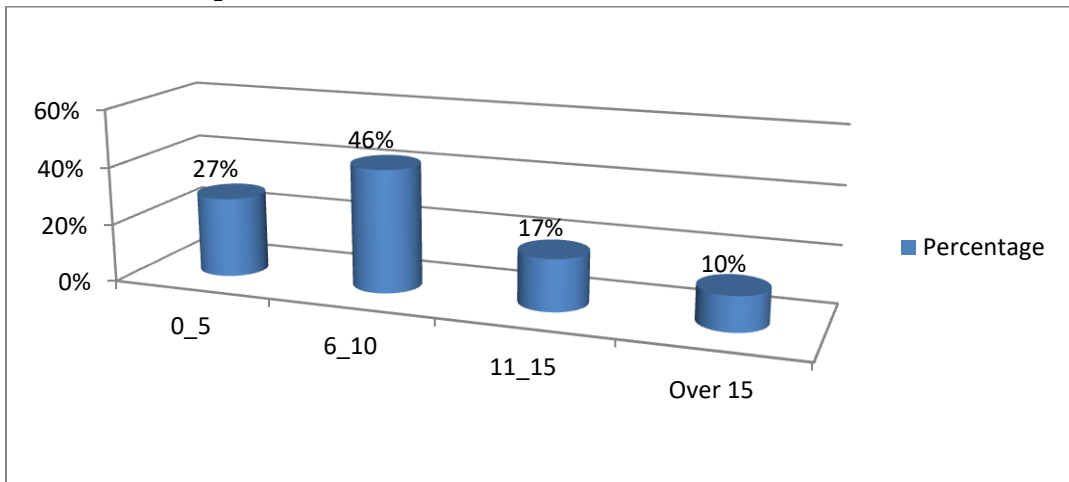


Figure 4.5 Respondents' Level of Experience

Source: Survey data, 2021

With respect to the level of experience, 43(27%) of the respondents have under 5 years of experience, 71(46%) of the respondents were experienced 6 to 10 years, 26(17%) of them have been employed in the office for between 11 to 15 years and the rest 16(10%) have served over 15 years in the office. This indicates that more than 73% of the respondents were relatively tenured group of auditors having significant years of experience in performing financial audit.

4.3. Descriptive Analysis Results

The discussion here after is related to the results of the descriptive statistical analysis of the data and their interpretations. A Likert scale data which is composed of a series of Likert-type items that represent each of the 3 variables i.e. SAI's legal mandate, Auditees' cooperation and Auditors' Competency were gathered through questionnaire. As a result the descriptive statistics used are the means, standard deviations and frequencies. The main purpose of using these statistical parameters is to interpret the average response of respondents for each item and the variation around the average response. The administered questionnaire has 30 items; item 1 up to 10 were designed to measure SAI's legal mandate, the next seven items i.e.11to17 were used to collect data on Auditees' cooperation and the last seven items from item 18 to 24 were used to collect data on Auditors' Competency and the last six items (25-30) were designed to measure regularity audit effectiveness. A response of strongly disagree takes 1 point, disagree takes 2 points, Neither agree nor disagree takes 3 points, agree takes 4 points and strongly agree takes 5 point. Accordingly, a high score for the item (5 or 4) indicates respondents' agreement that and a low score (1 or 2) indicates disagreement except for items 4, 5&26. Item 4&5 have negative direction to the independent variable, SAI's legal mandate i.e. the presence of non-auditable expenditures and the majority of expenditures being this type indicates that there are limits on the scope of audit which in turn shows absence of strong legal mandate. In addition Item 26 has negative direction to the dependent variable for the presence of repetitive audit findings shows a gap in regularity audit effectiveness. Keeping these in mind the data analysis results and discussions have been presented in the following tables.

4.3.1 SAI's legal mandate

The researcher used her own judgment to classify the range of mean scores obtained from 5 point Likert scale as there are no hard and fast rules on how to classify mean scores for likert scale. Strongly agree /agree have been taken to present a variable/ item which had a mean score of 3.5 to 5, Neither agree nor disagree have been taken to represent a variable/item with a mean score

of 2.5 to 3.4 and Disagree/Strongly Disagree have been taken to represent a variable/item which had a mean score of 0 to 2.5. The study used the above range of scoring except for item 4, 5 & 26; since they are in negative direction the scores are reversed. As it is shown in the table 4.2 below the mean scores of item 1, 2, 3, 6, 8&9 ranged from 4.1 to 4.5 which mean that most of the respondents agreed that OFAG has the necessary legal mandate to select audit areas to conduct Regularity audit on but it needs to stretch the letter of its mandate; as a result submit more than one consolidated report to the House of the Peoples’ Representatives and report on particularly important and significant findings during the year without having to wait till the end of the budget year for more effective Regularity audit. On the contrary they disagreed that OFAG has sufficient power to ensure that audit finding and recommendations are acted up on and that OFAG has a strong mandate to decide on its reporting procedures. The respondents agreed that there are public bodies’ expenditures labeled as classified (non-auditable) but they disagreed to give them a major proportion from the total expenditure. Standard deviation for all items was relatively high, which indicate the respondents’ answers were far from each other. The descriptive statistics for auditees’ cooperation is presented in table 4.2. below.

Table 4.2 Descriptive statistics for SAI’s legal mandate

Statements	Strongly Agree	Agree	Neither agree or disagree	Disagree	Strongly Disagree	Observations	Mean	STD
1. OFAG has the necessary legal mandate to carry out Regularity/ Financial audit.	46	106	0	0	46	156	4.2	3.7
2. OFAG needs to stretch the letter of its mandate for more effective Regularity/ Financial audit.	106	37	3	8	106	156	4.5	4.1

3. OFAG has the freedom to select audit areas to conduct Regularity/ Financial audit on.	35	110	2	2	35	156	4.1	3.6
4. There are public bodies' expenditures labeled as classified (non-auditable) expenditures.	80	32	15	21	80	156	2.0	1.9
5. Majority of public bodies' expenditure is labeled as classified (non-auditable).	4	17	6	103	4	156	3.8	3.4
6. Access to relevant and timely information has an impact on Regularity audit Effectiveness.	101	42	5	5	101	156	4.5	4.1
7. OFAG has a strong mandate to decide on its reporting procedures.	26	37	0	87	6	156	1.8	2.9
8. OFAG should submit more than one consolidated report to the House of the Peoples' Representatives.	96	20	11	17	96	156	4.1	3.8
9. OFAG should be empowered to report on particularly important and significant findings during the year without having to wait till the end of the budget year.	86	36	5	20	86	156	4.1	3.8

10. OFAG has sufficient power to ensure that audit finding and recommendations are acted on.	31	20	1	18	31	156	2.3	2.4
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Source: Survey data, 2021

4.3.2 Auditees' Cooperation

Among the seven items designed to measure auditees' cooperation; the statement which says that auditee accepts whatever evidence based gaps identified in audit reports has the highest mean score of 3.8 followed by cooperation and positive relation among auditors and auditees which has a mean score 3.0. The two statements on Delivering sufficient and appropriate records on time for the audit and in response to audit findings both recorded the least mean score of 0.2 which shows that the respondents believe that the auditees do not deliver sufficient and appropriate records on time. Compared to the other variables standard deviation for all items under the variable auditees' Cooperation was relatively lower which indicates that respondent opinion on auditees' cooperativeness were similar. By taking the average mean score of all the seven items auditees' cooperation has a mean score of 1.3 this shows that respondents consider that there is no cooperation from the side of auditees to effectively carry out regularity audit. The descriptive statistics for auditees' cooperation is presented in table 4.3 below.

Table 4.3 Descriptive statistics for auditees' cooperation

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	observations	Mean	Standard Deviation
11. The auditees have positive attitude towards Regularity/ Financial audit.	0	39	2	115	0	156	1.0	2.5
12. There is cooperation and positive relation among auditors and auditees in	0	117	1	38	0	156	3.0	3.2

order to help complete the audit work effectively.								
13. The auditees deliver sufficient and appropriate records, documentations and other information necessary for the audit on time.	0	8	2	146	0	156	0.2	2.1
14. The auditees deliver sufficient and appropriate records on time in response to audit findings.	0	8	1	147	0	156	0.2	2.1
15. Adequate and well-timed reply is given by the auditee to the audit queries before exit.	0	8	3	145	0	156	0.3	2.1
16. The auditee accepts whatever evidence based gaps identified in audit reports.	4	141	1	9	1	156	3.8	3.4
17. The auditees take corrective measures on recommendations and comments included in the audit reports.	1	27	1	127	0	156	0.7	2.3

Source: Survey data, 2021

4.3.3 Auditors' Competency

Among the seven items designed to measure auditors' competency; the last item which is on the auditors' Education level has the highest mean score of 4.2 followed by Auditors' experience to conduct an effective Regularity audit. This shows that the respondents believe that financial auditors currently working in OFAG are well educated and experienced. The statement each auditor is provided with trainings on the working systems and standards of auditees such as integrated financial management information system (IFMIS), Integrated Financial Reporting Standards (IFRS) recorded the least mean score of 0.2. This in turn indicates that the respondents

believe that financial auditors currently working in OFAG are not provided with adequate and relevant training. Standard deviation for all items was relatively high, which indicate the respondents' answers were far from each other. The descriptive statistics for auditors' competency is presented in table 4.4 below.

Table 4.4 Descriptive statistics for auditors' competency

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	observations	Mean	Standard Deviation
18. Financial auditors currently working in OFAG are competent enough to conduct an effective Regularity/ Financial audit.	6	50	11	16	73	156	2.4	2.3
19. Financial auditors in OFAG have sufficient experience to undertake an effective Regularity/ Financial audit.	5	125	7	15	4	156	3.7	3.3
20. Financial auditors in OFAG have the necessary Professional and Technical skill to conduct an effective Regularity/ Financial audit.	8	44	11	18	75	156	2.3	2.3
21. Financial auditors in OFAG are provided with continuous short and long	0	10	0	146	0	156	0.3	2.1

term trainings to upgrade their skills and knowledge.								
22. Trainings are given by qualified trainers.	4	31	17	95	9	156	2.5	2.2
23. Each auditor is provided with trainings on the working systems and standards of auditees such as integrated financial management information system (IFMIS), Integrated Financial Reporting Standards (IFRS).	0	7	0	149	0	156	0.2	2.0
24. Financial auditors currently working in OFAG have the necessary Education level to conduct an effective Regularity/ Financial audit.	86	41	6	17	6	156	4.2	3.8

Source: Survey data, 2021

4.3.4 Regularity audit effectiveness

Finally, descriptive analysis was conducted on the effectiveness of regularity audit which is the dependent variable in the study. Among the six items designed to measure regularity audit effectiveness; the last two items recorded the highest mean score of 3.9&3.8 respectively. On the contrary the first item recorded the lowest mean score of 0.2. These two results show that respondents agreed that regularity audit both ensures proper use of public resource and save much of it from being wasted or corrupted but they disagreed that the majority of audit recommendations given by OFAG are implemented. The descriptive statistics for regularity audit effectiveness is presented in table 4.5 below.

Table 4.5 Descriptive statistics for auditors' competency

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	observations	Mean	Standard Deviation
25. Majority of audit recommendations given by OFAG are implemented.	0	7	0	141	8	156	0.2	2.0
26. Similar audit findings are repeated annually due to lack of improvements by the auditees.	20	128	0	8	0	156	1.8	1.6
27. Regularity/ Financial audits planned by OFAG are entirely conducted and completed.	20	136	0	0	0	156	4.1	3.6
28. Most of the planned Regularity/ Financial audits are completed timely.	0	14	0	142	0	156	0.4	2.2
29. Regularity/ Financial audit conducted by OFAG ensures proper use of resources in the audited entity.	42	100	0	14	0	156	3.9	3.7
30. Regularity/ Financial audits conducted by OFAG timely save much of the public resource from being wasted or corrupted.	0	146	0	6	4	156	3.8	3.4

Source: Survey data, 2021

4.4. Assessment of Multiple Regression Model Assumptions

Assumptions are critical in statistics because if the underlying assumptions are not valid, then the process is unreliable, unpredictable, and out of the researcher's control (Stevens, as cited by Jaleta, 2019). Assessment on the assumptions of multiple regression models specifically the assumptions of; normality, homoscedasticity, and no perfect collinearity will be discussed separately in the proceeding sections before a complete regression analysis can be performed.

4.4.1. Assessment of Normality

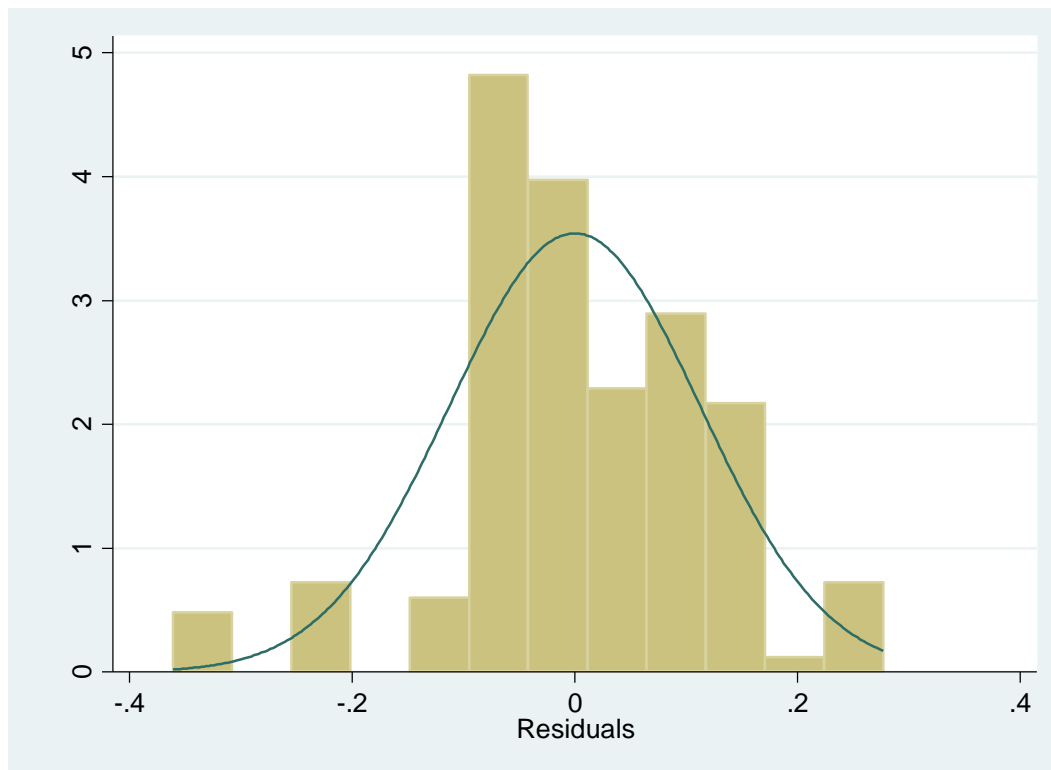
Many of the statistical procedures including correlation, regression, *t* tests, and analysis of variance, namely parametric tests, are based on the assumption that the data follows a normal distribution that is, it is assumed that the populations from which the samples are taken are normally distributed. Normality and other assumptions should be taken seriously, for when these assumptions do not hold, it is impossible to draw accurate and reliable conclusions about reality (Ghasemi and Zahedias, 2012). The study conducted tests of Skewness and Kurtosis to test the normality of the data. Skewness describes the asymmetry of a distribution and kurtosis measures both peakedness and tail heaviness of a distribution relative to that of the normal distribution (Brys, Hubert and Struyf, 2004). Acceptable values of skewness fall between -3 and $+3$, and kurtosis is appropriate from a range of -10 to $+10$ (Brown, 2006). The Skewness and kurtosis statistics for all variables in this study were within these acceptable ranges of normality as shown on Table 4.6 below.

Table 4.6 Assessment of normality

Variables	Observations	Skewness	Kurtosis
SAI's Legal Mandate	156	.363	-.952
Auditees' Cooperation	156	-.594	-1.669
Auditors' Competency	156	-.593	-1.604
Regularity Audit Effectiveness	156	.777	-1.415

Source: Own computation spss output (2021)

In addition to the tests of Skeweness and Kurtosis, the histogram was used to depict the normality of data. The histogram is a traditional way of displaying the shape of a group of data. The ideal shape to look for in the case of normality is a bell-shaped distribution. From the figure 4.6 below, we can accept that the regression model is normally distributed.



Source: Own computation stata output (2021)

Figure 4.6, Histogram

4.4.2. Assessment of Heteroskedasticity

The homoskedasticity assumption states that the variance of the unobserved error, u , conditional on the explanatory variables, is constant. Homoskedasticity fails whenever the variance of the unobserved factors changes across different segments of the population, where the segments are determined by the different values of the explanatory variables (Wooldridge, 2012). If the error terms do not have constant variance, they are said to be heteroskedastic (Williams, 2020). Breusch-Pagan / Cook-Weisberg test is used to assess the heteroscedasticity problem in this research. The Breusch-Pagan test is designed to detect any linear form of heteroskedasticity. It tests the null hypothesis that the error variances are all equal versus the alternative that the error

variances are a multiplicative function of one or more variables (Williams, 2020). The p -value should be bigger than 0.05 to not reject the null of homoscedasticity at the 5% level. Since the p -value in our case is more than the significant level 0.05 (5%), we can conclude that there is no heteroscedasticity problem.

Table 4.7 Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of RAE
chi2(1) = 0.30
Prob > chi2 = 0.5824

Source: Own computation spss output (2021)

4.4.3. Assessment of Multicollinearity

In regression analysis it is obvious to have a correlation between the response and predictor(s), but having correlation among predictors is something undesired. Multicollinearity is a phenomena when two or more predictors are correlated, if this happens, the standard error of the coefficients will increase. Increased standard error means that the coefficients for some or all independent variables may be found to be significantly different from zero (Daoud, 2017). Widely used technique of identifying the existence of multicollinearity is calculating variance inflation factor (VIF) between all independent variables. The VIF is an index of the amount that the variance of each regression coefficient is increased over that with uncorrelated independent variables (Keith as cited by Demssie, 2019). According to Daoud (2017), if Variance Inflation Factors (VIFs) is above 5 the independent variables are correlated, if it is between 1&5 they are moderately correlated and VIF of 1 indicates that the independent variables are not correlated. Tolerance is the amount of variability in one independent variable that is not explained by the other independent variables. Tolerance values less than 0.10 indicate collinearity. In this study

Variance Inflation Factors (VIFs) are below 5, close to 1 and Tolerances are greater than 0.1 this shows that the independent variables are not correlated (Table 4.8).

Table 4.8 Collinearity Statistics

Variables	Tolerance	VIF
SAI's Legal Mandate	.968	1.033
Auditees' Cooperation	.749	1.335
Auditors' Competency	.736	1.358

Source: Own computation spss output (2021)

4.5 Multiple Regression analysis Results

For the purposes of determining the extent to which the three independent variables (SAI's legal mandate, Auditees' cooperation and Auditors' competency) explain the variance in effectiveness of regularity audit, multiple regression analysis was performed. The results and discussions of the multiple regression analysis; model summary result, ANOVA and coefficient of variables are presented subsequently.

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822 ^a	.676	.670	.116557507516415

Source: Own computation spss output (2021)

As shown in the table 4.9 above the R Square has a value of 0.676, therefore it can be deduced that 67.6% of the variance in regularity audit effectiveness can be accounted for by these three independent variables with the remaining 32.4% of the variance being explained by factors other than those considered.

Table 4.10 ANOVA analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.313	3	1.438	105.823	.000 ^b
	Residual	2.065	152	.014		
	Total	6.378	155			

Source: Own computation spss output (2021)

The result in the ANOVA table confirmed the significance of the overall model by p-value of 0.000 which is below the significance level, i.e. 0.05, which means, the independent variables taken together have statistically significant relationship with the dependent variable under study.

Table 4.11 Model Coefficients

	Unstandardized	Std. Error	Standardized	t	Sig.
	Coefficients B		Coefficients Beta		
(Constant)	.194	.162		1.200	.232
SAI's Legal Mandate	.514	.067	.568	7.718	.000
Auditees' Cooperation	.249	.052	.266	4.835	.000
Auditors' Competency	.117	.054	.142	2.175	.031

Source: Own computation spss output (2021)

From Table 4.11 it can be seen that when the other variables are controlled, all of the independent variables having less than 5% p-values of the estimated t-values have a statistically significant relationship with regularity audit effectiveness. Furthermore beta sign of all the independent variables shows the positive effect they have on the dependent variable that means, any increase in the independent variables lead to increase in the dependent variable, regularity

audit effectiveness. Table 4.11 further shows that With a Beta-value of 0.514, SAI's Legal Mandate reaches statistical significance at the 0.01 level, and is the best predictor of regularity audit effectiveness. Moreover, it further appears as though Auditors' Competency, with an obtained Beta-value of 0.117, is the poorest predictor of regularity audit effectiveness.

4.6 Results of Hypothesis testing

The hypotheses in this study were expressed as alternative hypothesis. Based on beta coefficients and P-value it is possible to test our hypothesis and decide either to accept or reject it.

H1: The SAI legal mandate has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

Based on the regression analysis conducted, the SAI legal mandate has a positive and significant effect on regularity audit effectiveness ($\beta = 0.514$, $p < 0.05$). Hence, hypothesis 1 was supported. Previous studies established a positive relationship of legal mandate and Audit effectiveness (Danielle Morin, 2001 and Birhanu, 2016)

H2: Auditees' cooperation has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

The results of multiple regression, as presented in table 4.5.3 above, revealed that Auditees' cooperation has a positive and significant effect on regulatory audit effectiveness ($\beta = 0.249$, $p < 0.05$). Therefore, the researcher accepts hypothesis 2. This result is supported by (Edessa, 2019; Masood and Lodhi, 2015) who found out that Cooperation from the auditee has positive impact on the government audit effectiveness.

H3: Auditors' competency has a positive and significant effect on regularity audit effectiveness in the office of federal auditor general of Ethiopia.

The results of the multiple regression revealed that Auditors' competency has a positive and significant effect on regulatory audit effectiveness ($\beta = 0.117$, $p < 0.05$). The results were consistent with the previous research works of (Huong, 2018; Beyashe, 2018; Baharud-din, Shokiyah and Ibrahim, 2014).

CHAPTER FIVE

Summary, Conclusion and Recommendation

5.1 Summary of Major Findings

Results of descriptive analysis on supreme audit institutions' legal mandate, revealed that the respondents agreed that OFAG has the necessary legal mandate to select audit areas to conduct Regularity audit on but they disagreed that OFAG has a strong mandate to decide on its reporting procedures and they established that OFAG needs to stretch the letter of its mandate; as a result submit more than one consolidated report to the House of the Peoples' Representatives and report on particularly important and significant findings during the year without having to wait till the end of the budget year for more effective Regularity audit. Moreover the descriptive results of supreme audit institutions' legal mandate showed that respondents disagreed that OFAG has sufficient power to ensure that audit finding and recommendations are acted up on. Results also showed that there are public bodies' expenditures labeled as classified (non-auditable) though not a major proportion from the total expenditure.

The average mean score of all the seven items under the variable auditees' cooperation has a mean score of 1.3 this shows that respondents consider that there is no cooperation from the side of auditees to effectively carry out regularity audit. Furthermore descriptive analysis results exposed that respondents believe that financial auditors currently working in OFAG are well educated and experienced but they are not provided with trainings on the working systems and standards of auditees such as integrated financial management information system (IFMIS), Integrated Financial Reporting Standards (IFRS). Finally, descriptive analysis conducted on the effectiveness of regularity audit shows that respondents agreed that regularity audit both ensures proper use of public resource and saves much of it from being wasted or corrupted but they disagreed that the majority of audit recommendations given by OFAG are implemented.

Diagnostic tests of heteroscedasticity, normality and Multicollinearity were conducted before running a regression to check if there is violation of the assumptions of classical Linear Regressions and the result was negative. The results of the regression analysis provide evidence that all the three independent variables have significant and positive influence on regularity audit effectiveness in the office of federal auditor general of Ethiopia. Furthermore, it can be deduced from the result that given the R Square value of 0.676 , 67.6% of the variance in regularity audit

effectiveness can be accounted for supreme audit institutions' legal mandate, auditees' cooperation and auditors' competency.

5.2 Conclusions

The objective of this study was to examine the effect of supreme audit institutions' legal mandate, auditees' cooperation and auditors' competency on regularity audit effectiveness in the office of federal auditor general of Ethiopia. The study used descriptive and multiple regression analysis techniques.

From the findings it is possible to conclude that OFAG has a considerable legal mandate in conducting regularity audit and selecting audit areas to conduct but this is hindered by the presence of classified (non-auditable) expenditures, absence of strong legal mandate to decide on its reporting procedures that is, the power to decide to report on particularly important and significant findings without having to wait till the end of the budget year, and lack of power to ensure that audit finding and recommendations are acted up on.

The findings of this research signposted supreme audit institutions' legal mandate, as the key driver of regularity audit effectiveness. As it can be noted clearly the signs of the estimates in the regression are exactly the same with what we have expected and stated before running a regression; additionally these signs or the relationship they denote are in line with literatures and previous studies. Therefore effectiveness regularity audit in OFAG increases, when there is clear legal mandate, cooperative auditees and competent auditors.

Overall, this study adds to the extant literature on regularity audit by examining the factors affecting regularity audit effectiveness. Despite important findings, the results of the study should be considered in light of a number of limitations. The data collected was limited in order to restrict the length of the questionnaire and to maximize response rates. Further the data are limited to the perceptions of regularity auditors, and are not as comprehensive as they would have otherwise been if we had included other stakeholders, such as the auditees and members of public accounts committee. For this reason perhaps, a future study could be undertaken to explore the perception of other parties such as auditees on the regularity audit effectiveness. Also as it can be taken from the regression result independent variables included in this study contribute only 67.6% of the change in regularity audit effectiveness the rest 32.4% of the variance being explained by factors other than those considered. It is suggested that further

research needs to be conducted to identify these factors that contribute to regularity audit effectiveness.

5.2 Recommendations

On the base of the objectives and findings of the study; the following recommendations are made by the researcher with a view of enhancing regularity audit effectiveness:

1. OFAG should stretch its mandate to decide on its reporting procedures. It should be empowered to report on particularly important and significant findings during the year. The current legislation requiring the OFAG to submit one consolidated report to the House of the Peoples' Representatives limits the right of the office to audit and report its findings timeously to stakeholders. This is especially relevant when addressing audits which the office may need to bring to the attention of the nation without having to wait of the end of year report.
2. The legislature and the executive arm of government should lay the ground for OFAG to enable it conduct audit on all public bodies' expenditures. This can only be done by passing regulations and directives which open the door to access expenditures previously labeled as classified (non-auditable) and by strictly following up their implementations afterwards.
3. The auditees should develop a positive attitude towards Regularity/ Financial audit. They should consider cooperating with auditors in order to help complete the audit work effectively by delivering sufficient and appropriate records, documentations and other information necessary for the audit and in response to audit findings on time. Furthermore the auditees should take corrective measures on time in response to recommendations and comments included in the audit reports.
4. OFAG should provide financial auditors with continuous short and long term trainings on the working systems and standards of auditees such as integrated financial management information system (IFMIS), Integrated Financial Reporting Standards (IFRS) by qualified trainers.

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APPENDIX A: Questionnaire Developed For the Research
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent,

I am a post graduate student in Accounting & Finance at Addis Ababa University and I am conducting a research on the title “**FACTORS AFFECTING REGULARITY AUDIT EFFECTIVENESS: In Case of Office of the Federal Auditor General, Ethiopia (OFAG)**” The objective of this questionnaire is to collect data which will help assess the above stated issue on the title. The questionnaire has two sections: section A and section B. Section A consists of items on the personal profiles of the respondents and section B consists of items pertaining to the area of study. The information collected shall be used for research purpose only. I assure you that your responses will not be disclosed in any way and utmost confidentiality will be maintained. Hence, I request your sincere corporation for the successful undertaking of the study and your valuable response is highly appreciated.

Thank you!

Siti Juhar

Notice

- **No need to write your name.**
- **Please put a “√” mark in the bracket for your answers**
- **for any clarification or question please don’t hesitate to contact the researcher through the following address:**

❖ **Email:- sitijuhar24@gmail.com Mobile: - 0928317652**

Section A: Personal profiles

1. Gender:

Male [] Female []

2. Field of study:

Accounting [] Management [] Economics []

Others (specify) _____

3. Educational Level:

Bachelor's Degree [] Master's Degree []

Others (specify) _____

4. Current position:

Audit director [] Audit manager [] Senior Auditor []

Auditor [] Junior Auditor []

Others (specify) _____

5. Experience Level

0 to 5years [] 6 to 10years [] 11 to 15years [] Over 15years []

SECTION B: - Questions Related To Regularity /Financial Audit Effectiveness.

The Questionnaire is prepared in Likert-scale form with five (5) point scales. The scales are strongly agree, Agree, Neither agree or disagree, Disagree, and strongly disagree. I kindly ask you to carefully read and tick (√) the appropriate scale (point) that indicates your opinion in the table below.

Statements about the effect of legal mandate on Regularity/ Financial audit Effectiveness (RAE)	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1. OFAG has the necessary legal mandate to carry out Regularity/ Financial audit.					
2. OFAG needs to stretch the letter of its mandate for more effective Regularity/ Financial audit.					
3. OFAG has the freedom to select audit areas to conduct Regularity/ Financial audit on.					
4. There are public bodies' expenditures labeled as classified (non-auditable) expenditures.					
5. Majority of public bodies' expenditure is labeled as classified (non-auditable).					
6. Access to relevant and timely information has an impact on Regularity audit Effectiveness.					
7. OFAG has a strong mandate to decide on its reporting procedures.					
8. OFAG should submit more than one consolidated report to the House of the Peoples'					

Representatives.					
9. OFAG should be empowered to report on particularly important and significant findings during the year without having to wait till the end of the budget year.					
10. OFAG has sufficient power to ensure that audit findings and recommendations are acted on.					
Statements about the effect of Auditees' cooperation on Regularity/ Financial audit Effectiveness (RAE)	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
11. The auditees have positive attitude towards Regularity/ Financial audit.					
12. There is cooperation and positive relation among auditors and auditees in order to help complete the audit work effectively.					
13. The auditees deliver sufficient and appropriate records, documentations and other information necessary for the audit on time.					
14. The auditees deliver sufficient and appropriate records on time in response to audit findings.					
15. Adequate and well-timed reply is given by the auditee to the audit queries before exit.					
16. The auditee accepts whatever evidence based gaps identified in audit reports.					

17. The auditees take corrective measures on recommendations and comments included in the audit reports.					
Statements about the effect of Auditors' competency on Regularity/ Financial audit Effectiveness (RAE)	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
18. Financial auditors currently working in OFAG are competent enough to conduct an effective Regularity/ Financial audit.					
19. Financial auditors in OFAG have sufficient experience to undertake an effective Regularity/ Financial audit.					
20. Financial auditors in OFAG have the necessary Professional and Technical skill to conduct an effective Regularity/ Financial audit.					
21. Financial auditors in OFAG are provided with continuous short and long term trainings to upgrade their skills and knowledge.					
22. Trainings are given by qualified trainers.					
23. Each auditor is provided with trainings on the working systems and standards of auditees such as integrated financial management information system (IFMIS), Integrated Financial Reporting Standards (IFRS).					
24. Financial auditors currently working in OFAG have the necessary Education level to conduct an effective Regularity/ Financial audit.					

Statements about Regularity/ Financial audit Effectiveness (RAE)	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
25. Majority of audit recommendations given by OFAG are implemented.					
26. Similar audit findings are repeated annually due to lack of improvements by the auditees.					
27. Regularity/ Financial audits planned by OFAG are entirely conducted and completed.					
28. Most of the planned Regularity/ Financial audits are completed timely.					
29. Regularity/ Financial audit conducted by OFAG ensures proper use of resources in the audited entity.					
30. Regularity/ Financial audits conducted by OFAG timely save much of the public resource from being wasted or corrupted.					

Thank You very much for your cooperation!!