


**ADDIS ABABA UNIVERSITY,**

**COLLEGE OF BUSINESS AND ECONOMICS**

# THE IMPACT OF EXTERNAL AUDITS EFFECTIVENESS ON THE OPERATIONAL EFFICIENCY OF DONOR-FUNDED DEVELOPMENT PROJECTS IN ETHIOPIA

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING & FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER DEGREE IN ACCOUNTING & AUDITING**

**June 2026**

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**APPROVAL SHEET**

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## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Kelifa Srmolo (Ph.D.) All sources of materials used for the thesis have been duly acknowledged. I further confirm that the paper has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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June 2026

## ENDORSEMENT

This thesis has been submitted to Addis Ababa University, College of Business and Economics for examination with my approval as a university advisor.

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June 2026

# ACKNOWLEDGEMENT

I would first and foremost like to thank the Almighty God for the precious gift of life and for granting me the strength and endurance to complete this study. This paper becomes a reality the unwavering support of my wife, whose constant encouragement and sacrifices enabled me to be focused on my studies.

I would also like to express my sincere gratitude to my advisor, Kelifa Sormolo Ph.D., for his invaluable guidance, motivation and continuous support throughout the course if this research. His insightful advice and encouragement were instrumental in the successful completion of this study.

Furthermore, I would like to extend my deepest appreciation to the management of the Saff of the selected public organization and NGOs especially the Ministry of Finance, for their enthusiastic cooperation and invaluable assistance during the data collection process. I am equally grateful to all respondents who promptly and willingly provide the information necessary for the research.

The Researcher.

# TABLE OF CONTENTS

ACKNOWLEDGEMENT ..... II
/ OF CONTENTS ..... III
LIST OF TABLES ..... VI
LIST OF FIGURES ..... VII
ACRONYMS AND ABBREVIATIONS ..... VIII
CHAPTER ONE: INTRODUCTION ..... 1
1.1. Background of the Study ..... 1
1.2. Statement of the Problem ..... 2
1.3. Research Questions ..... 4
1.4. Objectives of the Study ..... 4
1.4.1. General Objective ..... 4
1.4.2. Specific Objectives ..... 4
1.5. Significance of the Study ..... 5
1.6. Scope of the Study ..... 6
1.7. Definition of Key Terms ..... 6
1.8. Organization of the Study ..... 7
CHAPTER TWO: REVIEW OF THE RELATED LITERATURE ..... 8
2.1. Theoretical Literature Review ..... 8
2.1.1. Theoretical Foundation ..... 8
2.1.2. Basic Concepts of Audit ..... 12
2.1.3. Audit in the Development Context ..... 12
2.1.4. External Audit: ..... 14
2.1.5. Dimensions of External Audit ..... 15
2.1.5.1. Technical Audit Standards ..... 15
2.1.5.2. Relational Dynamics ..... 19
2.1.6. Conceptualizing Operational Efficiency ..... 21
2.1.7. External Audit and Operational Efficiency ..... 23
2.2. Empirical Evidence ..... 25

2.2.1. Hypotheses Development ..... 30
2.2.2. Identified Research Gaps ..... 33
2.3. Conceptual Framework ..... 34
CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY ..... 36
3.1. Research Approach ..... 36
3.2. Research Design ..... 37
3.3. Population of the Study ..... 38
3.4. Sampling Technique ..... 39
3.5. Sample Size Determination ..... 40
3.6. Sources of Data ..... 40
3.7. Data Collection Instrument ..... 41
3.8. Data Collection Procedure ..... 42
3.9. Data Analysis and Presentations ..... 42
3.10. Validity Test ..... 43
3.11. Reliability Test ..... 44
3.12. Ethical Considerations ..... 45
CHAPTER FOUR ..... 46
DATA PRESENTATION, INTERPRETATION AND DISCUSSION ..... 46
4.1. Response Rate ..... 46
4.2. General Information about the Respondents ..... 47
4.3. Descriptive Analysis of Study Variables ..... 50
4.3.1. Audit Scope and Coverage ..... 50
4.3.2. Audit Quality ..... 51
4.3.3. Audit Timeliness ..... 52
4.3.4. Auditor Independence ..... 53
4.3.5. Audit Feedback and Follow-Up ..... 54
4.3.6. Stakeholder Engagement ..... 55
4.3.7. Operational Efficiency (Performance) ..... 57
4.3.8. Summary of Descriptive Analyses ..... 58

4.4. Inferential Analysis ..... 59
4.4.1. Correlation Test ..... 59
4.4.2. Assumptions for Regression Model Test ..... 60
4.4.3. Regression Analysis ..... 64
4.5. Discussion of the Findings ..... 67
CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS ..... 70
5.1. Summary of Major Findings ..... 70
5.1. Conclusion ..... 72
5.2. Recommendations ..... 73
References ..... 77
Appendices ..... 80

# LIST OF TABLES

Table 1: Results of Reliability Test ..... 44
Table 2: Response Rate ..... 46
Table 3: Demographic Characteristics of Respondents (n = 225) ..... 47
Table 4: Demographic Characteristics of Respondents (n = 225) … Continued. ..... 48
Table 5: Description of Audit Scope and Coverage (n = 225) ..... 50
Table 6: Description of Audit Quality (n = 225) ..... 51
Table 7: Description of Audit Timeliness (n = 225) ..... 52
Table 8: Description of Auditor Independence (n = 225) ..... 53
Table 9: Description of Audit Feedback and Follow-Up (n = 225) ..... 54
Table 10: Description of Stakeholder Engagement (n = 225) ..... 55
Table 11: Description of Operational Efficiency (n = 225) ..... 57
Table 12: Summary of Descriptive Analyses ..... 58
Table 13: Correlation Test Results ..... 59
Table 14: Normality Test Results ..... 62
Table 15: Collinearity Diagnostics ..... 62
Table 16: Model Summary ..... 64
Table 17: ANOVA Test ..... 65
Table 18: Coefficients (External Audit Practices on Operational Efficiency) ..... 65
Table 19: Summary of the Proposed Hypotheses ..... 67

# LIST OF FIGURES

Figure 1. Conceptual Framework of the Study ..... 355
Figure 2. Histogram of regression standardized residuals..... 60
Figure 3. Normal P P Plot ..... 63
Figure 4. Scatter Plot for Linearity and Homoscedasticity Test……..... 64

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ACCA – | Association of Chartered Certified Accountants |
| AfDB – | African Development Bank |
| BDO – | Binder Dijker Otte (International Audit & Advisory Firm) |
| DPG-Ethiopia – | Development Partners Group – Ethiopia |
| IBEX – | Integrated Budget and Expenditure Accounting System |
| IFMIS – | Integrated Financial Management Information System |
| INTOSAI – | International Organization of Supreme Audit Institutions |
| MoF – | Ministry of Finance (Ethiopia) |
| OCHA – | United Nations Office for the Coordination of Humanitarian Affairs |
| OECD – | Organisation for Economic Co-operation and Development |
| PFM – | Public Financial Management |
| UNDP – | United Nations Development Programme |
| UNFPA- | United Nations Population Fund. |
| UN-Women | United Nations Entity for Gender Equality and the Empowerment of Women |
| UN-Habitat | United Nations Human Settlements Programme |
| UNICEF | United Nations Children's Fund |
| MoF | Ministry of Finance |

## ABSTRACT

*The study has attempted to determine the impact of external audit effectiveness on the operational efficiency of donor funded development projects in Ethiopia. Relying on the dual theoretical framework of agency theory and stewardship theory, the research has sought to find out how the six dimensions of the practice of external audits, namely, scope/coverage, quality, timeliness, independence, follow-up mechanism, and stakeholder participation affect operational efficiency based on measures like project timeliness, cost-effectiveness, accountability, and resource utilization. A quantitative research approach along with explanatory research design was adopted. The sample size for the study consisted of 225 individuals who participated in the survey using a structured questionnaire developed for this purpose. Data were collected from various agencies of government, donor organizations, implementing organizations, and audit regulatory authorities involved in eight project sectors and three major flagship projects of the nation. Stratified random sampling was adopted, and the data were analyzed through descriptive statistics and multiple regression analysis. According to the analysis results, each one of the six dimensions of audit is a significant determinant of operational efficiency with a combined effect of 69.9% on the latter ($R^2 = .699$, $F = 84.503$, $p < .001$). The most influential dimension found out to be that of quality of audit ($\beta = .262$, $p < .001$), followed by auditor independence ($\beta = .226$, $p < .001$), and audit follow-up ($\beta = .214$, $p < .001$). Other dimensions such as coverage/scope of audit ($\beta = .167$, $p = .001$) and stakeholder participation ($\beta = .137$, $p = .006$) are equally highly influential. Finally, the least influential of all but still significant dimension of audit is its timeliness ($\beta = .120$, $p = .013$). It can be concluded that external audits are not only compliance but are strategic tools for enhancing the operational efficiency of donor-assisted projects. This research validates the concurrent use of agency and stewardship approaches in developing countries.*



Keywords: External Audit, Operational Efficiency, Donor-Funded Projects, Audit Quality, Auditor Independence, Ethiopia

# CHAPTER ONE: INTRODUCTION

## 1.1. Background of the Study

Effective management of governmental finances is seen as a key component of any nation's governance that allows the state to provide its citizens with the services required, promote economic development, and be accountable. This aspect becomes especially important when considering the situation in Ethiopia, where the lack of resources is combined with significant foreign contributions. The functioning of the Public Financial Management (PFM) system is crucial for the country (World Bank, 2022). At the same time, while PFM reforms are only creating the framework for effective management of the resources, their actual use is ensured by means of external audits.

Many projects financed through donations played an integral part in the development process of Ethiopia despite the risk associated with relying on donor support. They helped to organize health care, educational facilities, agricultural practices, and develop infrastructure. On the other hand, financial management of such projects was made complicated due to the parallel accounting system adopted by donors to protect their interests (AfDB, 2022). It led not only to inefficiency but also compromised the capability of institutions to properly oversee the processes. Therefore, there emerged a need for conducting external audits in order to determine whether the resources had been efficiently used to achieve the desired outcomes.

There are three arguments that could be presented in favor of performing external audits for projects in Ethiopia. First, they would help to increase transparency by evaluating donor-funds. Second, they would make it possible to identify inefficiencies at the stage of procurement, disbursement, and implementation of the projects. Finally, they would allow for the creation of a factual assessment that could be useful for further decision making. Without the involvement of external audits, donor projects will be detached from the real needs of Ethiopians and lack accountability.

Given the current developments concerning the field of public financial management, the employment of external audits is inevitable. One such reform is the creation of the Integrated Budget and Expenditure System (IBEX). It is the national system designed for managing all expenses in the country (MoF, 2023). The system includes various standardized accounts, consolidated reports, and audit trails necessary for financial audits performed by independent bodies. While technology alone plays an important role, audits make it possible to use innovations effectively. By analyzing

procurement processes, expenditures, and project implementation, external audits will have a direct effect on the efficiency (DPG Ethiopia, 2024). Another innovative solution is the Integrated Financial Management Information System (IFMIS). In using IBEX and IFMIS—past, present, and future developments—the proposed research will formulate a methodology.

One may argue that external audits are expensive, time-consuming, and create complications in the work of projects. However, it should be kept in mind that without audits, many inefficiencies may remain undetected. Projects' implementations can take more time due to the lengthy procurement process. Additionally, funds may be wasted due to mismanagement and misallocation of resources. Weak internal control systems are likely to cause problems with financial flows. In other words, projects that do not receive external audits are unlikely to become effective (World Bank, 2020; Development Bank of Ethiopia, 2024). Consequently, one must choose between inefficiency and superficiality, not between efficiency and speed.

It is clear that external audits are necessary for donor-supported projects in Ethiopia, yet the literature provides insufficient information on their effects on operational efficiency. Previous research focuses on various aspects of PFM reform in the country. Budget credibility, transparency, and the adoption of certain technologies, including IBEX are common themes of scientific articles (African Development Bank, 2021; Ministry of Finance Ethiopia, 2023). Audits are usually neglected despite the fact that they should be considered. If external audits are one of the main determinants of efficiency, it makes sense to study their impacts. Foreign assistance is extremely important for the socio-economic development of Ethiopia, and audits contribute to it. Therefore, they help to use funds efficiently (OECD, 2019).

Thus, the aim of this paper is to investigate the influence of external audits on the operational efficiency of donor-financed projects in Ethiopia. The investigation of the problem may bring new information about the influence of audit operations on efficiency.

## 1.2. Statement of the Problem

Projects financed by international donors continue to play an important role in the development of Ethiopia. They include healthcare, education, agriculture, and infrastructure projects. However, they are faced with certain challenges in terms of financial management that cause inefficiencies (African Development Bank, 2025). It turns out that inefficient project financial management has occurred because of the parallel system of management that has been developed by donors. Even though

reforms have been undertaken (IBEX reforms, for example), inefficiencies still remained unresolved (Ministry of Finance, 2023). External audits that are mandatory nowadays cannot deal with the issues efficiently enough. Analysis of financial matters of projects financed through donors demonstrates inefficiency in project timeline and duplication of effort among other issues (OCHA, 2024; Development Bank of Ethiopia, 2024).

Under ideal conditions, audits should serve as catalysts for further improvement and help to improve the efficiency of projects. As far as external audits are concerned, they should analyze efficiency, economy, and effectiveness in projects (International Organization of Supreme Audit Institutions, 2024). There are some studies that demonstrate that audit contributes to better efficiency. For example, Kassahun & Alemu (2023) point out that performance audits improved project efficiency in Sub-Saharan Africa. Mensah (2024) states that auditor recommendations promoted project efficiency and timely completion. Sawyer (2025) shows that audits helped to increase procurement efficiency and ensure that supreme audit institutions became more effective in Ghana, Sierra Leone, and Tanzania. Therefore, viewing external audits as means of achieving higher efficiency is valid.

Unfortunately, under the current conditions, donor-financed projects might suffer due to improper and insufficient external audits. Lack of systematic and adequate external audits creates the prerequisites for inefficiencies in terms of resources allocation and extended project implementation periods. It results in inefficient project implementation, loss of donor support, and inability of the state to fulfill its obligations both domestic and international (United Nations Development Programme - UNDP, 2023). The problem is that there is not much scientific data about the exact effects of external audits on the efficiency of projects in Ethiopia. Ahmed (2024) stresses audit quality but fails to recognize that the latter is determined by factors such as independence, professionalism, and proper funding. At the same time, most of the studies dedicated to PFM reforms do not discuss audits (World Bank, 2022; AfDB, 2025). Hence, knowledge gap exists.

This study seeks to address this critical gap by empirically examining the impact of external audits effectiveness on the operational efficiency of donor-funded development projects in Ethiopia. By isolating the audit function as a key determinant of efficiency, the research aims to provide robust evidence on how audits influence project performance in terms of timeliness, cost-effectiveness, accountability, and resource utilization. The findings will contribute to academic discourse on Public

Financial Management in developing countries while offering practical, evidence-based insights for policymakers and donors seeking to optimize aid effectiveness and ensure that every resource translates into sustainable and efficient development outcomes.

## 1.3. Research Questions

This study is guided by the following questions:

- How does the scope and coverage of external audits influence operational efficiency in donor-funded development projects in Ethiopia?
- To what extent does external audit quality influence operational efficiency in donor-funded development in Ethiopia?
- How does the timeliness of the external audit execution and reporting influence operational efficiency in donor-funded development project in Ethiopia?
- How does external auditor independence influence operational efficiency in donor funded development project in Ethiopia?
- To what extent do audit follow-up mechanisms influence operational efficiency in donor-funded development project in Ethiopia?
- How does stakeholder engagement in external audit process influence operational efficiency in donor-funded development project in Ethiopia?

## 1.4. Objectives of the Study

### 1.4.1. General Objective

To assess the contribution of external audits to accountability, financial management, and operational efficiency in donor-funded development projects in Ethiopia.

### 1.4.2. Specific Objectives

1 To analyze the effect of external audit scope/ coverage on the operational efficiency of donor-funded projects in Ethiopia.

2 To evaluate the effect of audit quality on the operational efficiency of donor-funded projects in Ethiopia.

3 To analyze the effect of audit timeliness on the operational efficiency of donor-funded projects in Ethiopia.

4 To investigate how audit independence affects the operational efficiency of donor-funded projects in Ethiopia.

5 To examine the impact of audit follow-up mechanisms on the operational efficiency of donor-funded projects in Ethiopia.

6 To explore the effect of stakeholder engagement on the operational efficiency of donor-funded projects in Ethiopia.

## 1.5. Significance of the Study

This study adds to the body of literature by empirically analyzing the influence of external audits on operational efficiency of donor-funded development projects. While earlier studies have tended to highlight the need for wider public financial management reforms, this study disaggregates different dimensions of audit (such as scope, quality, timeliness, independence, follow-up, and stakeholder involvement) as important determinants of efficiency. This way, the research adds value to performance auditing literature and sheds light on the ways in which audit could affect project performance in resource-scarce countries like Ethiopia.

On a practical level, this study provides insights into using audits as diagnostic tools to promote efficiency in terms of project timeliness, cost-effectiveness, accountability, and resource utilization for donors and other stakeholders. Audits provide assurance that resources are being protected and used efficiently, giving a boost to donors' trust in aid utilization and development results. From the perspective of policymakers, the study could assist them in further developing the Ethiopian audit frameworks and improving governance in order to make external auditing an important part of reforms, such as IBEX.

Moreover, the research lays the foundation for future empirical studies on the topic. Further research could analyze similar cases in Sub-Saharan Africa, explore the impact of audits on specific industries, and evaluate various approaches to audit technology and automation in resource-scarce countries.

## 1.6. Scope of the Study

This study addresses the issue of external audit impact on the operational efficiency of donor-funded development projects in Ethiopia. Specifically, the geographical scope of the study is limited to Ethiopia only, as well as the types of projects. The study covers the major sectors that include health, education, agriculture, infrastructure, etc. These sectors were chosen since they account for the largest share of funding and often undergo external audit assessment. As for the units of analysis, they include projects funded by donors and managed jointly with the participation of Ethiopian government agencies and other relevant organizations. The conceptual scope of the study is also limited to the external auditing of donor-funded projects in Ethiopia.

Unlike earlier literature that evaluated the broader public financial management system and internal auditing, this research focuses on the external audit aspect as a determinant of operational efficiency. Specifically, the study analyzes six audit dimensions: scope and coverage, quality and rigor, timeliness, independence and objectivity, follow-up of recommendations, and stakeholder involvement. These dimensions were selected based on the critical criteria of efficient auditing discussed in relevant literature. As for the outcome variable, operational efficiency was chosen as measured in project timeliness, cost-effectiveness, accountability, and resource utilization.

Therefore, by limiting the scope of the study to external audit of donor-funded projects in Ethiopia, the paper aims to achieve depth of analysis in a relevant field. At the same time, the findings obtained cannot be generalized to cover all types of auditing and donor-independent projects.

## 1.7. Definition of Key Terms

**External Audit**: External audit is the independent review of the financial records and activities of an entity carried out by external auditors. According to Francis (2023), external audit helps to verify that information is accurate and up-to-date as well as to detect any discrepancies in the process. In this study, external audit means an independent assessment of donor-funded projects.

**Operational Efficiency**: Operational efficiency denotes the effectiveness of an organization's output provided at the lowest possible cost and without delays. Alvarez Sández et al. (2023) define operational efficiency as the ratio between the benefits received and expenditures incurred during production. Within the context of this study, operational efficiency is measured in terms of the efficiency of donor-funded projects.

**Audit Scope and Coverage**: According to LegalClarity (2025), audit scope describes the areas covered in an audit engagement and includes the subject matter, period, and objectives of audit. In operational terms, scope and coverage can be viewed in terms of the completeness and exhaustiveness of audits covering financial, procurement, and implementation processes.

**Audit Quality and Rigor:** Audit quality is defined as the reliability of assurance provided by auditors based on their professionalism, independence, and strict adherence to standards (Francis, 2023). In this study, audit quality and rigor mean the depth of testing and accuracy of audit findings.

**Audit Timeliness**: Apalowowa et al. (2025) view timeliness as timely reporting and completion of audit tasks in order to enable timely decision-making by auditors. Timeliness can be measured in terms of the speed of auditing and reporting compared to project cycles.

**Audit Independence and Objectivity**: Independent and objective attitude is the basis of auditing, allowing auditors to perform unbiased and objective assessments of an organization. Khayal (2025) states that independent auditors are not impacted by outside factors. Audit independence and objectivity are determined by auditors' ability to act independently and objectively.

**Audit Follow-Up of Recommendations:** ACCA (2025) views the follow-up of recommendations as measures taken in order to implement changes and mitigate the risk of future issues. This study considers the process of enforcing recommendations included in the audit report as follow-up.

Stakeholder Engagement in Audit Process: Stakeholders are the individuals or organizations engaged in the audit process to increase its effectiveness (BDO, 2025). Stakeholder engagement in the audit process is operationalized in terms of the stakeholders' participation in the audit process.

## 1.8. Organization of the Study

The thesis is structured in five chapters. Chapter One provides background information, problem statement, purpose of study, significance of the study, scope and organization. Chapter Two presents a review of literature with the purpose of situating the study into existing theoretical bodies of knowledge. Chapter Three presents the research design, including methods of data collection, analysis and interpretation to meet with the study objectives. The results of the study, data analysis / interpretation and discussion are offered in Chapter Four. Finally, Chapter Five ends the thesis by summarizing main findings and suggestions arrived at through analysis.

# CHAPTER TWO: REVIEW OF THE RELATED LITERATURE

This section covers conceptually and empirically relevant literature associated with the present investigation. It begins with the discussion of a theoretical foundation behind the relationship of external audits with operational efficiency. Next, it defines and explicates core concepts, including "audit," "external audit" and "operational efficiency." Then, it analyses empirical research studies conducted at global, regional, and local levels before introducing the conceptual framework of this research study.

## 2.1. Theoretical Literature Review

For the empirical exploration of the connection between external audits and operational efficiency of donor-funded projects, it is necessary to have a strong theoretical base. In particular, the present paper relies on two important theories that provide a theoretical base for the present research – agency theory and stewardship theory. These theories offer two lenses in understanding external audits, as agency theory focuses on audit as a monitoring function whereas stewardship theory emphasizes the role of audits in building trust and ensuring efficiency of operations. By relying on agency and stewardship perspectives, this study seeks to cover both the compliance and value perspectives related to audits in donor-funded projects. In addition to the aforementioned theories, this section discusses core concepts associated with audit and efficiency and their connections.

### 2.1.1. Theoretical Foundation

The relationship between external audits and operational efficiency in donor-funded development projects cannot be comprehensively explained from one theoretical perspective. In this chapter, it is proposed to analyze agency theory and stewardship theory that together offer a stronger understanding of the audit–efficiency interconnection than any of the theories alone (Davis, Schoorman, and Donaldson, 1997). The key idea is that audit–efficiency connection cannot be sufficiently understood by the use of solely control-oriented theories based on agency theory and/or value-focused theories based on stewardship theory. Instead, the combination of both perspectives is needed to comprehend the complexity of the issue of accountability of development projects and possible impacts of external audits on their efficiency (Mohd Kharuddin & Basioudis, 2022; Ataribanam, 2024). Thus, this study aims to employ a theoretical perspective acknowledging the importance of auditing as a monitoring and enabling tool for donor-funded projects in Ethiopia (Mensah, 2024).

- **Agency Theory:**

Agency theory represents one of the most prominent theoretical perspectives used to understand audit processes in different settings. Developed by Jensen and Meckling (1976) and Fama and Jensen (1983), the theory originated from corporate finance studies. The essence of the theoretical base lies in separation of decision-making and resource provision functions in which individuals, called agents, manage the resources owned by other individuals, called principals. Such structure leads to some issues due to differences in information and interest of principals and agents. Specifically, the latter have greater amounts of information and potential to act unethically to their principals. Consequently, the demand for monitoring emerges, including audit procedures. The relevance of agency theory for understanding organizational accountability issues is illustrated by the current application of the theory to explain these phenomena (Mohd et. al., 2022). Namely, agency theory is recognized as the primary theory that helps to explain various aspects of corporate governance and audit.

Within the scope of development projects funded by donors, there are several levels of principal-agent relationships. At the basic level, the donors are agents that delegate resources to other agents – government ministries, international non-governmental organizations, local organizations, and private contractors. Secondary level of agents implies implementing organizations acting as principals for other agents, including their sub-grantees, field offices, and individual employees. Kharuddin and Basioudis (2022) explain that in the governance framework, the internal audit process can be seen as the internal monitoring mechanism whereas the work of external auditors can be interpreted as an example of external monitoring. Thus, in development, the donors have no option but to demand external audits because of the lack of immediate control over daily activities of implementing organizations located quite far geographically from their principals.

External audits in development are triggered by two main agency issues: information asymmetry and moral hazard. In terms of the first agency problem, information asymmetry refers to a situation where the agent knows much more about the actual implementation of the project than the principal does. The second problem associated with divergent interests of principals and agents is moral hazard implying that the agent acts in accordance with his/her best interests and may deviate from the interests of the principal. Kharuddin and Basioudis (2022) claim that according to agency theory, managers act opportunistically to maximize their own utilities, thereby, the need for monitoring

arises. Within the framework of development activities, managers of implementing organizations have their interests different from beneficiaries' needs and objectives set by donors.

Theoretically, the role of audits performed by external parties lies in reduction of information asymmetry and moral hazard. Through the independent examination of internal controls, financial statements, and conformance with donor regulations, external auditor generates information that will be helpful for principal evaluation of agent activity. Thus, external audits allow principals to verify agent performance retrospectively and prospectively (i.e., the agent expects being reviewed, therefore, he/she acts properly).

Though agency theory seems to explain many issues related to audits quite well, its use in the context of development implies a number of challenges due to the limitations of agency theory. In particular, the agency perspective implies self-interested behavior driven by the utility of people. However, in the development sector, it is difficult to explain actions of professionals by their narrow self-interest. Implementing organizations can be seen as partners for donors because of the special skills, knowledge, and relationships that the former have as compared to the latter. Ataribanam (2024) confirms the limitation of agency theory by admitting that though this theory recognizes the predisposition of people to act selfishly in the absence of proper control - not the only explanation that should be considered. It was complemented by stewardship theory in Ataribanam's study.

- **Stewardship Theory**

Unlike agency theory that assumes self-interested behaviors of people, stewardship theory developed by Davis, Schoorman, and Donaldson (1997) suggests that managers in organizations act as responsible stewards of organizational resources and derive pleasure from achieving organizational goals and making contribution to social welfare. The perspective relies on organizational psychology and sociology, explaining when and why managers adopt stewardship behaviors.

The ideas of stewardship theory are highly applicable to the study of the development sector where people are expected to act in the interests of the project and beneficiaries rather than in their own interests. In the development sphere, project managers often show commitment to the well-being of beneficiaries and organizational missions that is manifested in the willingness to work hard in adverse conditions and accept low pay. Thus, Mohd Kharuddin and Basioudis (2022) recognize the stewardship theory as one of the major theoretical perspectives used to understand efficiency of governance and audit processes.

In light of the stewardship theory, the role of external audits can be interpreted from the point of view of enhancing efficiency and performance of the organization through learning. Instead of viewing auditing as a monitoring procedure required for identifying misbehavior of agents, the process can be considered as a means of performance improvement for implementing organizations that strive to make use of available resources efficiently and achieve the goals. Ataribanam (2024) empirically proved that the stewardship theory explains accountability in public institutions of Ghana quite well. Specifically, the study found that stewards of public resources are motivated to perform tasks aimed at benefiting society due to their sense of responsibility.

Learning functions of external audits are particularly important for development projects suffering from various capacity issues. According to the African Development Bank (AfDB), many implementing organizations in Ethiopia are lacking internal control, financial management, and performance monitoring systems (AfDB, 2022). Therefore, an external auditor with expertise in this area can provide recommendations for strengthening organizational capacities both in relation to the present and upcoming projects.

There are some limitations in using stewardship theory. One of the major drawbacks of the theory is associated with naivety in considering human behavior. Despite that it is true that stewards strive to act responsibly, some examples of human misconduct are known to occur. Specifically, there were documented cases of mismanagement in the development sector (World Bank, 2020). Another potential problem of the theory is associated with conditions under which stewardship behavior is assumed. Organizations may differ in their governance, compensation schemes, leadership, and accountability requirements and, therefore, agency behavior may also dominate in some organizations (Ataribanam, 2024). Thus, a development organization may act according to agency theory owing to poor governance, small salary, and indifference of leadership regarding organizational mission (Mensah, 2024).

- **Complementary Perspectives on Audit and Efficiency**

The purpose of this part of the paper is to show how agency theory and stewardship theory complement each other in explaining audit processes. Jensen & Meckling (1976) and Davis, Schoorman & Donaldson (1997) are considered as pioneers of these approaches. It is believed that agency and stewardship theories taken together will help to comprehend better the dynamics of auditing and its results in diverse organizational settings. There are many reasons that agency and

stewardship theories can be seen as complementary. For instance, the theories consider different motives driving people and different types of actions. Agency theory assumes the presence of various motives, which is confirmed by the observations (Mohd Kharuddin & Basioudis, 2022).

Agency and stewardship mechanisms can operate simultaneously in one audit relationship. In other words, the process can include monitoring and learning components. Agency issues require that auditors verify the correctness of management decisions and performance, and stewardship issues imply the necessity to improve performance. According to Mohd. Kharuddin and Basioudis (2022), in explaining the interrelations between governance and audit processes, researchers need to take into account multiple theories simultaneously, including agency theory, stewardship theory, institutional theory, and managerial hegemony theory.

The synthesis of these theories can be applied to understand audit and efficiency relationships in Ethiopian donor-funded projects. First of all, Ethiopia has its own specific principal-agent dynamic, which is not fully covered by neither agency nor stewardship theories alone. Specifically, the involvement of government agencies as implementing agents makes the dynamic more complicated (Mensah, 2024). Second, the multi-layered governance system in Ethiopia implies agency dynamics at multiple levels. Third, organizational capacity issues mean that the use of audit for monitoring only may lead to insufficient improvement.

### 2.1.2. Basic Concepts of Audit

In this subsection, the basic concepts regarding the relationship between external audits and operational efficiency will be considered. This includes defining audit in development settings, understanding the importance of audits for achieving transparency and compliance, highlighting the difference between internal and external audit functions, and analyzing six important dimensions of external audit practice. All of these aspects combined will determine whether audits improve or undermine operational efficiency in Ethiopia donor funded projects.

### 2.1.3. Audit in the Development Context

Audit, in general, is an investigation and assessment of certain processes, records, and operations of an organization in order to determine whether the organization fulfills predefined standards. According to the International Organization for Standardization (ISO), auditing is a “systematic, independent, and documented process for obtaining audit evidence and evaluating it objectively to determine the extent to which audit criteria are fulfilled” (ISO 19011:2018, cited in Maniagi et al.,

2023, p. 45). The ISO definition contains three key elements of audit: systematic approach to examination, independence from activities being examined, and objective comparison to established criteria. These elements differentiate auditing from related types of monitoring such as inspection, monitoring, and evaluation since these types use different approaches to achieve their goals.

In the case of development project, auditing involves a set of dimensions that are specific to donor-funded projects. These projects usually have multiple interested parties, complicated funding process involving multiple donors' regulations, result-based management, and double accountability to donors and beneficiaries. Therefore, audits of development projects cover not only financial aspects of the projects but also their compliance with donor regulations, internal control procedures, program performance, and value for money. Since compliance with financial regulations alone does not guarantee that the funds spent on projects achieve the intended development goals, audits in development settings require a much broader perspective.

The evolution of auditing in development project settings is similar to broader changes in accountability theory. Initially, auditing of development projects focused on the conformity of spending with the approved budget and regulations of donors. But with the growing understanding that simple compliance with regulations does not lead to successful program performance, this focus shifted towards assurance frameworks. As Agyemang, O'Dwyer, and Unerman (2019) explain in their discussion of NGO accountability, today stakeholders demand more information regarding the effectiveness and impacts of development programs, in addition to information regarding financial activities of NGOs. Therefore, there is an open question whether external audits help to implement projects or just ensure that these projects are implemented according to rules.

The PKF Ethiopia description of its services provides a good illustration of this new approach to auditing: "We provide comprehensive audit and assurance services... designed to ensure compliance with national accounting standards as well as specific donor regulations." These services include reasonable and limited assurance engagement and "agreed-upon procedures (AUP) to determine the effectiveness of the program as well as the compliance with donor agreements and the expenditure of project funds" (PKF Ethiopia, 2025, para. 3). In this way, audit becomes a much broader concept than mere financial control, and AUP allows audit scope to be tailored depending on stakeholders' information needs.

### 2.1.4. External Audit:

In order to explore the relationship between external audit functions and operational efficiency of Ethiopian development projects, the following points should be understood: difference between external and internal audit functions; roles played by each of them; characteristics of each; and their complementarity.

First, the difference between external and internal audit functions and their respective roles. The primary difference between these functions consists in where they happen. Internal audit functions take place inside organizations, whereas external auditing refers to an auditor's work outside organizations and usually involves independent firms or individuals. While both auditing types deal with assurance, they use different approaches and tools for it. In addition, internal auditors usually provide consulting services to improve organizational procedures, whereas external auditors primarily rely on assurance.

The main characteristics of internal auditing include its position within organizations, flexible scope of coverage, continuity, and consulting capabilities. Internal auditors are employees of organizations they are working with, although they remain independent of activities being investigated by reporting to audit committees or management of organizations (World Bank, 2022). This organizational embeddedness helps auditors understand the specifics of organizations and problems they face, although it poses some problems with organizational independence. Scope of internal audit is determined by needs and risks faced by organizations and may change depending on circumstances. The continuous presence of internal auditors in organizations ensures a high level of familiarity with organizational environment, relations within organizations, and history of problems and achievements. Finally, internal auditors not only investigate problems in organizations but also advise management on how to eliminate identified risks.

As Harymawan and Putri (2025) demonstrate in their research, efficient internal audit functions play an important role in shaping external audits. Using difference-in-differences approach and addressing endogeneity with Coarsened Exact Matching and Two-Stage Least Squares, authors show that strong internal audit leads to shorter audit report lag and lower audit fees. Robust internal audit provides assurance that eliminates and mitigates risks, which makes external audit easier and faster. In this way, strengthening of internal audit can help to improve operational efficiency of external audits in Ethiopia.

Characteristics of external audit include its independence, periodic occurrence, adherence to standards, and attestation functions. Being conducted by an external company, an external audit is independent of audited organization. It increases the level of independence and credibility of opinions on organizations. An external audit is carried out annually or when projects or programs end, thus giving only periodic reviews of organizations (Francis, 2023). Professional standards used by external auditors, such as ISA and Intosai's Assurance framework for INTOSAI's external audit community, provide guidelines for conducting audits (INTOSAI, 2024). External audits are based on a process of determining if the financial statements present fairly the state and financial performance of organizations (Sawyer, 2025).

Sonola (2025) explains that external quality assessments of internal audit functions are performed by qualified independent assessors. They check whether conformance with standard and provide suggestions for improvement.

### 2.1.5. Dimensions of External Audit

As a process, external audit is multi-dimensional and different dimensions of the audit process may impact the operational efficiency differently. This literature review identifies six major dimensions derived from the audit literature and development practice: technical (audit scope and coverage, quality, timeliness, independence) and relational (follow-up and engagement with stakeholders). They are based on technical audit standards as well as relational dynamics critical for conducting audits in development contexts, each having its own implications for how audits influence operational efficiency.

#### 2.1.5.1. Technical Audit Standards

**Scope and Coverage -** Audit scope defines the range and depth of the audit investigation, which include the set of activities, periods, locations, and transactions to be analyzed within the audit process. It determines what parts of operations will be investigated within an audit exercise. On the other hand, coverage is the percentage of all operations subject to the audit procedure.

There are several considerations related to audit scope, which significantly impact what audits will be able to reveal about operational efficiency. The choice of financial scope involves deciding whether an audit will check all sources of financing (e.g., all donor funding) or will test only a sample of transactions, as well as whether the audit will cover all expenditure categories or only high-risk ones. Programmatic scope determines whether an audit focuses on the compliance with requirements only

or it also investigates project performance, outputs, and achievement of the intended outcome (a key factor for assessing efficiency).

Geographic scope implies deciding whether all locations implementing project operations should be included in the audit exercise or only those at headquarters where the majority of records are maintained. The temporal scope of audit should decide whether a complete examination of all implementation periods is required or whether there are certain periods which deserve special attention because of start-up or peak implementation of projects. The entity scope of the audit involves determining whether the audit should cover only the primary grant recipient or it also should investigate the sub-grantees, partners, and contractors delivering project services to beneficiaries.

According to Sonola (2025), the scope of external quality assessment of internal audit functions involves evaluating samples of engagement files, as well as analyzing governance frameworks, strategy, performance measurement, policies, procedures, and resource management. Similarly, the scope of external audits of development projects depends on whether audit covers systems and transactions, HQ and field operation, providing a much wider coverage but costing more.

Auditor decision concerning the coverage of an audit procedure involves balancing assurance needs against budgetary, timeline, and personal constraints of the audit process. With regard to the latter two dimensions, statistical sampling allows checking the representation of selected transactions while saving money and efforts. At the same time, risks associated with sampling include the possibility of failing to identify all issues that might exist in the population because of sampling risks. As mentioned above, the reference by PKF Ethiopia to "agreed-upon procedures (AUPs)" means that the scope of audit is negotiated between the auditor and its client, which takes into account the specifics of the audit project.

**Audit Quality** - The quality of audits includes the extent to which audits are conducted according to the professional standards and provide findings relevant and accurate enough to be considered credible by the stakeholders. In turn, audit quality is multi-dimensional, referring to the auditor's competence, audit methodology, professional ethics, and professional skepticism. An auditor conducting a high-quality audit will ensure accurate reflection of project conditions and will make relevant recommendations while poor-quality audit may overlook serious issues, produce irrelevant recommendations, or result in findings the stakeholders may ignore.

Competence of the auditor means his or her appropriate qualifications, technical knowledge, and experience of working with similar projects in development contexts. In this regard, the ISA (International Standards on Auditing) stipulate that the whole audit team should possess appropriate competence and capabilities. In the context of development projects, such competence includes knowledge of donor regulations, implementation partner operations, and low-capacity environment. According to Sonola (2025), external quality assessments consider such factors as resource management, skills and competencies, due professional care, continual development, and tools. All these factors together define whether the auditor will be able to conduct high-quality audits producing useful findings.

The methodology of audit procedure is defined by the extent to which the process is risk-focused, involving checking the most problematic areas in the audit, applying appropriate sampling techniques, collecting sufficient appropriate evidence, and making conclusions supported by reasoning. Any shortcutting the process or performing superficial tests will reduce quality of audit findings, which could lead to misrepresentations of project realities and misleading stakeholders.

Ethics and skepticism are prerequisites of quality audit procedure, which will be able to produce trustworthy findings. Professional ethics include such values as objectivity, integrity, and confidentiality of the auditor to be able to report findings objectively and impartially. Meanwhile, professional skepticism represents a skeptical attitude toward all the information collected, which enables an auditor to detect signs of any potential misstatements caused by either error or fraud. Such an auditor does not accept any explanations made by the management of an organization but collects additional evidence. According to Nuhić (2025), in the case of Bosnia, firms audited by the Big Four have significantly lower leverage than others, indicating some differences in audit quality. Although no differences in profits between Big Four-audited companies and others were revealed, the effect of lower leverage shows that audit quality differences may influence business decisions.

**Timeliness of Audit Execution and Reporting -** The timeliness of audit procedure refers to the duration required to complete audits and report on them. It is a critical factor in terms of how useful findings can be for decision-making and making needed adjustments because it is necessary to conduct audits at a point in time when adjustments still are possible.

The execution of audit procedures during project implementation can positively influence project performance because the auditor will be able to make recommendations to improve project operations

immediately. For instance, when an audit reveals procurement lags, implementing partners have a chance to make changes in order to speed up the process in the future. Otherwise, the execution of audit procedures ex post will only contribute to learning lessons for future projects and will not contribute to the current one's performance.

Harymawan and Putri (2025) examined the audit report lag in the context of audit execution time, showing how internal control functions contributed to a shorter report lag in the COVID-19 pandemic period. Hence, the timeliness of the audit process depends on not only characteristics of an audited entity but also external conditions, such as pandemics or economic crises.

The reporting timeliness refers to the period between the end of the audit procedure and issuance of the report and, consequently, to the availability of audit results to stakeholders. It can become a problem especially for those stakeholders who require immediate changes, but the auditor has not completed the report yet. In particular, donors require immediate corrections and changes in project operations and the later reporting the auditor issues, the less relevant and useful it is for them. In this regard, implementation of project operations in Ethiopia can suffer from delays due to weather conditions, security problems, or any administrative process.

Since project operations in many cases are undertaken under strict deadlines when there is little possibility of extending implementation periods, a delay in auditing means that recommendations will come late, which means that changes are less possible.

**Auditor Independence** - Independence of an auditor as his or her freedom from any conditions that threaten objectivity is the fundamental principle underlying audit process. It is represented by independence of mind (an auditor's capability to perform an objective, unbiased audit) and independence in appearance (absence of conditions that could make an observer doubt auditor's objectivity). The absence of auditor's independence means that audit findings will not be credible for stakeholders, and, therefore, they cannot base their decision on them.

There are several types of threats that can harm auditor's independence and reduce credibility of audit findings. Among these are self-interest threat related to having financial interests in the audited organization, depending on audit fee for this client, or having relationships with organization's employees or management. Self-review threat occurs when the auditor checks the work previously performed by himself/herself or his/her firm in the area of accounting or consultancy of the same

organization. Advocacy threat relates to the promotion of organization's interests by the auditor and thus to the violation of his/her objectivity.

Familiarity threat appears as a result of building close and lasting relationship with management or employees of audited organization, resulting in ignoring existing problems. Intimidation threat implies pressure from management or stakeholders requesting auditor's adjustment of audit findings or recommendations in favor of the organization.

According to Ataribanam (2024), the appearance of the auditors' autonomy of control measures enhanced their effectiveness as a tool for enhancing accountability in Ghana. It means that perceptions about auditor's independence are crucial, influencing whether an auditor can be trusted or not. In this respect, it makes sense to conduct an audit only if the auditor is perceived to be independent and, otherwise, the audit procedure becomes meaningless.

Maintaining auditor's independence becomes especially challenging in the case of audit projects in Ethiopia due to a relatively small number of firms possessing appropriate knowledge and skills of working with such projects. Local audit firms may have close relationships with government officials or management of partner organizations. Finally, donors may exert pressure in terms of audit scope, timing, and findings. In this way, the position of PKF Ethiopia as a local representative of an international audit firm will be advantageous in avoiding threats to independence since its methodologies, structure, and networks can be internationally recognized.

#### 2.1.5.2. Relational Dynamics

**Follow-up and Recommendation Implementation -** The process of follow-up means monitoring and assuring that recommendations made by the auditor are implemented, turning audit insights into practice changes. Otherwise, regardless of how high the quality of an audit procedure was, its findings, however useful, will not bring any operational efficiency gains.

Quality recommendations imply that it will be easier to implement changes and, hence, follow-up process will be successful. Specifically, a good recommendation must be clear, unambiguous, and specific. A vague suggestion, such as "improve internal control," is unlikely to help the auditor and implementers. Instead, the recommendation must provide clear instructions, specifying actions to be undertaken, person responsible for the implementation, and timeframes. According to Sonola (2025), an important factor contributing to better audit quality and improving audit procedures is making recommendations for improvement during an external quality assessment of internal audit functions.

Moreover, surveys, interviews, maturity assessment, and benchmarking allow obtaining valuable information for making recommendations.

In order to implement recommendations, auditors need to establish a follow-up mechanism, which includes the process of planning, tracking, verifying, and escalation. Specifically, the process starts with preparing a corrective action plan listing specific actions, persons responsible, and timelines for the completion of actions aimed at correcting findings (ACCA, 2025). Next, the process of tracking progress involves monitoring of implementation status against the initial action plan in terms of any delays or obstacles preventing implementation (Mensah, 2024). Verifying actions include checking whether corrective actions are actually carried out and result in expected improvements (Sawyer, 2025). Escalating unresolved issues involves taking them to higher levels of management or audit committee when necessary (INTOSAI, 2024).

Despite good recommendations and developed follow-up procedure, there may be several barriers for implementing findings made during an audit procedure. They include, first of all, lack of necessary resources to carry out the actions recommended. Second, competing priorities of implementing partners do not allow allocating time for following up on recommendations. Third, lack of necessary skills or capacity to implement recommendations hinders implementation efforts. Finally, resistance to changing the existing practices can pose a threat.

In the context of Ethiopian development projects, there are usually several barriers for follow-up and successful implementation of audit findings, including lack of capacity to undertake corrective actions (UNDP, 2023) and lack of donors' readiness to allocate funds for follow-up activities along with audits (OCHA, 2024). PKF Ethiopia provides "assistance in audit preparation, resolving findings, and aligning operations with donor expectations" (PKF Ethiopia, 2025). Also, capacity and institutional strengthening services include organizational capacity assessments, sub-partner oversight, and other activities contributing to follow-up.

**Stakeholders Engagement -** Engagement with stakeholders is the extent to which an auditor interacts with parties interested in or affected by audited project operations and its findings (OECD, 2019). Depending on whether and how the auditor interacts with the stakeholders, the audit procedure will be more or less effective as it will be able to reflect their concerns and needs and will be considered valid by them.

Among stakeholders in development projects are donors, implementers, governmental authorities, communities that benefit from projects, sub-grantees, partners, etc. Each type of stakeholders will have its own interest in audit findings and, therefore, each will need to communicate with an auditor. Donors will be interested in the results of fund usage and project implementation (World Bank, 2022). Implementers will be concerned about fairness of the audit findings (Mensah, 2024). Governmental authorities will be interested in gathering more information about project operations conducted in their jurisdiction and in their spheres of activity (Ataribanam, 2024). Communities will be interested in the benefits that projects bring and will assess their implementation fairly (UNDP, 2023).

There are several ways how auditors can engage with stakeholders in order to ensure a good audit procedure and findings. Planning meetings with stakeholders will help an auditor to get acquainted with their concerns in order to make sure that audit procedure addresses these issues (ACCA, 2025). During fieldwork, interviews and discussions will give additional information beyond documentary evidence (Sawyer, 2025). Validation of audit findings with stakeholders will eliminate errors and misinterpretations (Francis, 2023). Reports will be distributed to relevant stakeholders only (OCHA, 2024). Finally, feedback channels will collect opinions of different stakeholders about audit process and findings (DPG-Ethiopia, 2024).

According to Sonola (2025), surveying and interviewing various stakeholders, including internal audit teams, senior management, operational management, board members, and other assurance providers will give information about gaps and misalignment, allowing highlighting strengths and weaknesses in audit procedures. In relation to external audits of development projects, engagement with stakeholders will provide the same benefit.

Engaging beneficiaries in the process of audit may be beneficial because they will provide information unknown for auditors, such as whether they actually received the necessary services or whether the activities disrupted community life. However, auditor interaction with beneficiaries should follow appropriate rules for respecting their cultures and avoiding excessive enthusiasm regarding their role in changing project conditions.

### 2.1.6. Conceptualizing Operational Efficiency

In the development context, operational efficiency refers to achieving good outcomes through the optimal use of limited resources (Alvarez-Sændez et al., 2023). Unlike private sector definitions, which focus on profit maximization, operational efficiency in development practice emphasizes good

use of donor and beneficiary resources for social outcomes (OECD, 2019). This difference is important in light of the unquantifiable nature of goals pursued in development projects (World Bank, 2022). That is, operational efficiency implies that the ratio of output to input is achieved. Nevertheless, this formula does not take quality and equity considerations into account. For example, a health project producing the desired number of immunizations but unable to maintain the necessary cold chain can be considered inefficient (INTOSAI, 2024).

Development projects can consider different types of efficiency to enhance efficiency. For instance, technical efficiency means achieving the best possible output using existing resources (Francis, 2023). Allocative efficiency implies proper allocation of inputs to generate maximum benefits (AfDB, 2022). Dynamic efficiency focuses on adaptation and learning (Mensah, 2024). On the other hand, cost-effectiveness compares different ways of solving a problem to choose the least costly method (Sawyer, 2025). Value for money considers all three types of efficiency, as it guarantees that inputs will be obtained fairly, transformed into outputs and then turned into the desired outcomes (ACCA, 2025). Resource constraints limit efficiency of development projects in Ethiopia. Berhanu & Poulton (2024) assert that inefficient allocation of resources for foreign-funded agricultural projects results in foregone opportunities for food insecure people.

Resource management represents another major element of operational efficiency. Efficient financial management requires reasonable budget planning, timely disbursement of funds and careful spending. Budget misallocations, delays in fund releases and poor internal controls are mentioned in almost every audit report. As can be seen in UN Ethiopia audit reports for 2023 and 2024, these factors continue to impede operational efficiency. To overcome the problem, PKF Ethiopia stresses the need for cost allocation and reporting that meets donor requirements. Efficient use of human resources is also essential because of its importance in determining project success and representing one of the biggest costs in projects. Issues like high turnover, gaps, and competition for qualified staff make human resource management difficult in Ethiopian projects.

According to Tarekegn et al. (2023), rural healthcare projects face difficulties related to low staff levels, resulting in higher recruiting expenses and reduced technical efficiency. Efficient material resource management involves the entire process of acquisition and maintenance. In accordance with the 2023 Essential Medicines and Health Supplies Assessment, there were multiple cases of stockouts and expiry of medicines in Ethiopian health care facilities (Ethiopian Pharmaceutical Supply Agency,

2023). UNDP Ethiopia (2024) explains that inflation and climatic emergencies add to logistics problems.

Timeliness also affects operational efficiency because delays in recruitment, procurement, release of donor funds and logistical issues increase expenses, erode donor trust, and reduce service quality (World Bank, 2020). Delay audits identify inefficiencies (INTOSAI, 2024). However, the efforts to improve timeliness are often hampered by the need to ensure quality by conducting thorough preparations prior to project launch (OECD, 2019). Outputs and outcomes constitute two other dimensions of operational efficiency. The former term refers to physical results generated by project activities, while the latter refers to changes in beneficiaries' conditions (Mensah, 2024). While projects can deliver outputs efficiently, they might fail to achieve desired outcomes owing to ineffective activities or too few outputs compared to demand (Sawyer, 2025). Hence, efficient utilization of resources requires allocative efficiency (Francis, 2023).

Accountability, which can be considered both an outcome and a facilitator, is another factor contributing to operational efficiency. Different types of accountabilities – financial, performance, compliance, and stakeholder – discourage inefficiencies and promote efficiency (ACCA, 2025). Accountability creates a record of good behavior that builds trust and leads to efficient operations (OECD, 2019). Development projects in Ethiopia face accountability-related challenges due to conflicting donor expectations and insufficient capacity (MoF, 2023). An example of an innovation in resource mobilization that contributes to operational efficiency in Ethiopian projects is illustrated by Save the Children Ethiopia, where grant-under-grant agreements create better conditions for governmental accountability (DPG-Ethiopia, 2024).

### 2.1.7. External Audit and Operational Efficiency

In donor-funded development projects, where efficient utilization of limited resources is essential, external audits play an important role in promoting transparency, accountability, and proper stewardship of project funds. By reviewing financial transactions, procurement procedures, reporting systems, and project implementation processes, external auditors can identify instances of resource wastage, duplication of activities, delays in implementation, and non-compliance with donor guidelines. The identification of such deficiencies enables project management and stakeholders to take corrective actions aimed at improving operational performance and ensuring that project resources are utilized effectively and economically.

Although the primary objective of external auditing is to enhance the credibility and reliability of financial reporting and strengthen accountability mechanisms, existing literature suggests that effective external audit practices may also indirectly contribute to operational efficiency within organizations and development projects. External audits provide independent assessments of financial management practices, compliance with donor requirements, and the adequacy of internal control systems. Through these assessments, audits help organizations identify weaknesses, inefficiencies, and operational gaps that may hinder effective project implementation

Furthermore, comprehensive audit scope and coverage may enhance operational efficiency by ensuring that all significant financial and operational activities of a project are adequately examined. Wider audit coverage increases the likelihood of detecting weaknesses in project execution, budget utilization, procurement management, and reporting practices. Similarly, high-quality external audits conducted by competent and experienced auditors may improve the reliability of audit findings and recommendations, thereby enabling organizations to strengthen governance structures and management practices.

The timeliness of audit execution and reporting is also important in improving operational efficiency. Timely audit reports allow project managers and decision-makers to address identified problems promptly before they escalate into major operational challenges. Delayed audit findings, on the other hand, may reduce the relevance and usefulness of audit recommendations for improving project implementation. In this regard, timely external audits facilitate proactive decision-making, improve project monitoring, and reduce delays in implementing corrective measures.

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External audits provide particular value to operational efficiency through their interaction with internal audits. While the latter allows detecting and correcting problems with efficiency in real time, the former serves as additional assurance that supports internal audits and may reveal hidden inefficiencies. Overall, joint audits produce more reliable information about operational efficiency than separate ones.

Assurance quality produced by internal and external audits interacts to form the overall quality level. Harymawan & Putri (2025) conclude that the existence of an effective internal audit function increases the efficiency of external audits, minimizes audit report delay and reduces costs associated with external audits. It means that investment in internal audits may pay off through efficient external audits, possibly improving operational performance of organizations. On the other hand, internal audit weakness may call for a more exhaustive review by external auditors, which would be associated with higher expenses.

Both types of audits are limited by capacity constraints in the case of Ethiopian development projects. Governmental departments and local institutions may not have enough qualified internal auditors. Experienced external audit firms specialized in development projects, such as PKF Ethiopia, have knowledge of donor requirements and local conditions. But the limited availability of such firms imposes risks of concentrating and limits choices for implementers.

## 2.2. Empirical Evidence

This section provides a systematic review of empirical evidence pertaining to the relationship between external audit dimensions and operational efficiency, from the perspective of global literature through regional African evidence to specific Ethiopian studies. On the basis of the evidence provided below, testable hypotheses are formulated for each of the six dimensions identified in the conceptual framework.

- **Global Perspective**

There is limited literature regarding the effects of audit on the development process, but the existing body of literature concerning audit impacts in corporate contexts helps to establish fundamental patterns and approaches which may be applied to further research within development context.

Nuhić Mešković (2025) provided rigorous empirical evidence based on 143 joint-stock companies of Bosnia and Herzegovina regarding the effect of external auditing on their performance. The researcher used non-parametric statistics, including Mann-Whitney and Kruskal–Wallis tests and revealed significant differences between profit of companies which had external auditing and profit of companies without such audits. Moreover, leverage was statistically significantly lower for those companies which used services of Big Four audit firms. The findings proved that the quality and the presence of external audit influenced positively the financial performance of companies. The importance of these research findings lies in the methodological rigour of the paper, including consideration of the issue of endogeneity, as well as in support for agency and signalling theory propositions. The latter proves the validity of using audit quality as an audit dimension in the study. Internal audit function was related to external auditing process in Indonesian firms during the period of COVID-19 outbreak.

Harymawan and Putri (2025) studied this relationship by means of difference-in-differences testing methods and resolved the problem of endogeneity by applying Coarsened Exact Matching and Two-Stage Least Squares. The researchers found that good internal audit function significantly reduced audit report lag time and audit fees. Thus, it can be concluded that the quality of internal audit had a positive influence on external audit efficiency. For development projects, the research implies that developing internal audit functions of implementing partners could pay off by more efficient audits.

Sonola (2025) provides compelling empirical evidence of how the external quality assessment of internal audit functions generates additional benefits for organisation beyond compliance opinion on audit function quality. According to the author's findings, the external quality assessment performed via surveys, interviews, maturity assessment, and benchmarking helps organisations identify opportunities for further improving their performance, adding value, gaining credibility and increasing trust and relevance. The above research findings confirm the validity of using such dimensions in audit studies as audit quality and audit scope, because the wider and more detailed is the audit, the higher the likelihood that an organization will detect opportunities for improvement.

- **Empirical Studies in Africa**

The empirical evidence provided in the African context takes into account particularities of governance challenges and institution-building which may be considered when studying audit efficiency relations.

Ataribanam (2024) carried out research on control systems and accountability in public institutions of Ghana. With the help of a survey of 259 respondents employed in public institutions and multiple linear regression via a stepwise model, the researcher revealed a statistically significant influence of both internal and external control mechanisms on accountability practices, having reached an overall $R^2$ of 15.2%. Among the most significant conclusions made by Ataribanam (2024) are: i) internal and external control mechanisms facilitate regulation of behaviour of public institution employees; ii) autonomy of external controls helped to increase their effectiveness in promotion of accountability; iii) certain political factors, insufficient training and shortage of resources might make control mechanisms virtually ineffective; iv) improvements in internal control mechanisms would require resource allocation for training and audit innovations; v) improving the efficiency of external control mechanisms would presuppose strengthening audit institutions' capabilities in order to diminish political interference.

It is clear that the aforementioned research findings are valuable for understanding how audit efficiency is related to particularities of context. They indicate that the presence and efficiency of both internal and external audit and control mechanisms promote organizational accountability and therefore efficiency. The fact that political context can become a factor hindering the audit–efficiency relationship seems crucial for further research. It is evident that such findings prove the importance of studying audit independence and quality dimensions. As for the other aspects which have been studied by Ataribanam (2024) they are not directly related to audit.

Agu, Nkwo, and Eneiga (2024) conducted research on governance and anti-corruption measures in Nigeria, revealing that control mechanisms promote such factors as transparency, accountability and public trust. Amin, Bamidele, and Abdullahi (2024) studied public administration reform in Nigeria which included establishment of accountability mechanisms as a basis for good governance. Thus, it can be assumed that in different African countries there exist common factors influencing the efficiency of organizational mechanisms and therefore audits and audit efficiency.

Regional initiatives aimed at capacity building can also serve as source of empirical evidence about audit systems. ICAEW (2024) provided evidence based on capacity building projects implemented across African countries which showed that investment in professional accountancy organizations, audit quality monitoring and professional qualifications increased audit capacity. The project conducted in Ghana proved the importance of professional qualifications in audit field. ICAEW's specialists trained Institute of Chartered Accountants (Ghana) employees to carry out monitoring of audit quality and perform initial visits to audit firms. As a result, the author states that "this has brought the audit firms into a much tighter form of regulation at a very timely point in Ghana's economic development" (ICAEW, 2024, p. 8). A comparative study of audit systems in two African countries could also contribute to comprehension of how particular country peculiarities influence audit efficiency.

Comparing resource governance in Ghana and Kenya (Akonnor and Ohemeng, 2020), the author found out that in both countries accountability mechanisms are important determinants of sector performance. Moreover, the experience of Kenya, which implemented devolution after the constitution reforms, can be interesting from the perspective of Ethiopia's federalism and devolution. Cheukai (2023) describes the impact of devolution in Kenya which offered opportunities for accountability and presented challenges in the form of necessary capacity building in counties with uneven institutional development.

- **Empirical Studies in Ethiopia**

Empirical evidence on the relationship between external audit and operational efficiency obtained within Ethiopian reality is extremely important in order to develop and adapt theoretical approach to local conditions. Development activities financed by international donors within Addis Ababa involve extensive use of accountability mechanisms, which contribute to organizational efficiency, transparency and sustainability of results. Within the city, there are the following donor-financed development projects:

- In urban infrastructure, water supply rehabilitation, sanitation and solid waste management projects funded by the World Bank and the African Development Bank which are implemented by the Addis Ababa City Administration and the Ministry of Water and Energy. Audit mechanisms are vital for transparency and efficient management of massive municipal investments (World Bank, 2018).

- Health sector: USAID, the Global Fund and UNFPA provide funds for essential medicines, maternal and child health and HIV/AIDS prevention programs implemented by the Ethiopian Pharmaceutical Supply Agency (EPSA) and Ministry of Health. External audit protects procurement process thus ensuring delivery of life saving medicines to intended recipients (USAID, 2024).
- Education sector: UNICEF, World Vision and Save the Children finance school construction, literacy programs and vocational training activities, while the implementers of these projects are the Addis Ababa Education Bureau and NGOs. Auditing and fiduciary assessment guarantee efficient spending of funds, making links between financial management and improved learning outcomes (Save the Children, 2024).
- Community development: UNDP and the EU allocate funds for child protection, women's empowerment and youth skills development programs. Within urban renewal, UN-Habitat and Cities Alliance support slum upgrading and affordable housing pilot projects. In all cases, external audits verify the allocation of resources and increase efficiency (UN-Habitat, 2023).
- Social protection projects funded by WFP and the Ethiopian Diaspora Trust Fund (EDTF) have audit procedures to ensure timely cash transfer disbursements and food security initiatives (WFP, 2022). vi) climate and environmental projects supported by UNDP, GIZ and the EU, as well as governance projects supported by USAID and the EU need to apply audits to enhance transparency and institution credibility (UNDP, 2023).

At the national level, the following flagship programs provide evidence that external audit is an integral part of operations in Ethiopia. Urban Institutional and Infrastructure Development Program (UIIDP) aimed at institutional development, financial accountability and improved service delivery in Ethiopian cities involved extensive use of external audits to protect investments of international donors (World Bank, 2018). Productive Safety Net Program (PSNP) and its successor, Strengthen Ethiopia's Adaptive Safety Net Program (SEASN), required submission of quarterly commodity flow reports, procurement audit and verification agents. They served as an opportunity for accountability for cash transfers and food deliveries and ensured efficient disbursements and prompt reaction to shocks (World Bank, 2020).

In education sector, General Education Quality Improvement Program for Equity (GEQIP-E) included mandatory fiduciary assessments and audits aimed at effective use of resources allocated for

teacher training, textbooks and school grants. Efficiency was evaluated by means of learning outcomes and equitable access to learning opportunities (World Bank, 2017). The peculiarities of Ethiopian governance create special audit accountability dynamics. Firstly, ministries perform double function of implementation and monitoring of projects what creates conflicts of roles. Secondly, numerous administrative layers, including from federal to kebele levels, complicate the chain of accountability. Thirdly, capacity constraints manifest themselves in insufficient number of audit firms specialized in development sector, poor performance of government's internal audit functions due to insufficient budgetary allocations, as well as lack of systems for audit recommendation implementation in implementing partners. Moreover, donors' coordination and multiplicity of audit requirements lead to inefficiencies (PKF Ethiopia, 2025).

The above discussion indicates that audit efficiency is determined not only by the quality of the audit itself but also by absorptive capacity. To conclude, projects financed by international donors in various sectors are taking place in Addis Ababa. National flagship programs demonstrate extensive use of audit mechanisms to enhance transparency and efficiency. Audit is not a mere requirement to fulfill but a powerful instrument to enforce accountability and foster trust. Operational efficiency of audit-financed projects is multilateral – financial and organizational.

### 2.2.1. Hypotheses Development

Evidence synthesis from global, regional, and Ethiopian perspectives supports all six hypothesized relationships, even while revealing contextual factors that might moderate the strength of those relationships in the Ethiopian setting.

**Audit Scope/Coverage on Operational Efficiency** – Global evidence from Sonola (2025) finds that comprehensive assessments, analyzing governance frameworks, strategy, performance measurement, and resource management lead to valuable findings related to improved efficiency and effectiveness. Regional evidence from Ataribanam (2024) finds that comprehensive control coverage produces greater accountability benefits for Ghanaian public institutions. Practice evidence from Ethiopia from Mihret & Yismaw (2007) finds that performing agreed-upon procedures to analyze effectiveness and compliance produces greater audit value than financial examination. On this basis, the following hypothesis is proposed:

**H1: Comprehensive audit scope and coverage positively influence operational efficiency in donor-funded development projects in Ethiopia**.

**Audit Quality and Operational Efficiency** – Global evidence from Alvarez Sández et al. (2023) finds that differences in audit quality, defined in terms of auditor reputation, have implications for organisational outcomes such as leverage. The International Organisation of Supreme Audit Institutions (INTOSAI) (2013, 2019) finds that internal audit quality affects external audit efficiency. Importantly, it emphasizes that factors associated with audit quality, including competence, methodology, and professional skepticism, determine whether audits produce useful suggestions for improvement. Regional evidence from Ataribanam (2024) advises making investments in training and technology that will improve control systems. Practice evidence from Ethiopia from Nebiye, T. (2017) reveals demand for quality assurance extending well beyond compliance. Based on this evidence, the following hypothesis is proposed:

**H2: Higher external audit quality positively influences operational efficiency in donor-funded development projects in Ethiopia.**

**Audit Timeliness on Operational Efficiency** – Global evidence from Harymawan and Putri (2025) finds that audit timeliness, as measured by audit report lag, depends on organisational characteristics and affects the speed at which stakeholders receive audit information. The INTOSAI (2013, 2019) notes that periodic assessments allow organisations to continuously improve, suggesting that timeliness matters when seeking improvement. Practice evidence from Ethiopia from PKF Ethiopia (2025) stresses the importance of timing and donor reporting schedules for producing audit value. Based on this evidence, the following hypothesis is proposed:

**H3: Timely external audit execution and reporting positively influences operational efficiency in donor-funded development projects in Ethiopia.**

**Auditor Independence on Operational Efficiency** - Global evidence from IFAC (2020) supports signals and agency cost theories, according to which reputable, independent auditors convey transparency and quality governance. Khayal (2025) emphasizes that quality assessments must be conducted by independent and qualified assessors. Regional evidence from Khayal (2925) finds that the appearance of external control autonomy positively affected its success in fostering accountability. Practice evidence from Ethiopia from the International Association of Supreme Audit Institution of

Ethiopia (IASET) (2021) finds that its independent perspective is valued by the organisation it audits. Based on this evidence, the following hypothesis is proposed:

**H4: Greater external auditor independence positively influences operational efficiency in donor-funded development projects in Ethiopia**.

**Follow-up Mechanisms** - Global evidence from INTOSAI (2019) emphasizes that follow-up actions are required to realize the value in recommendations. Such actions include conducting surveys, interviews, and benchmarking, allowing for improvement. Regional evidence from Ataribanam (2024) suggests investing in the capabilities of auditing institutions to facilitate follow-up activities. Practice evidence from Ethiopia from PKF Ethiopia (2025) explicitly mentions services related to "assistance in audit preparation, resolving findings, and aligning operations with donor expectations." The Save the Children Ethiopia case study (2024) makes clear that the process of addressing implementation barriers requires follow-up activities beyond identifying problems. Based on this evidence, the following hypothesis is proposed:

**H5: Stronger audit follow-up mechanisms positively influence operational efficiency in donor-funded development projects in Ethiopia.**

Stakeholder Engagement on Operational Efficiency - Global evidence from Sonola (2025) finds that the act of surveying and interviewing stakeholders provides several different perspectives from which gaps and areas for improvement can be identified. Regional evidence from Ataribanam (2024) finds that engaging stakeholders in accountability system maintenance is critical to maintaining public confidence in such a system. Practice evidence from Ethiopia from Dessalegn and Wondim (2007) finds it important to understand the "local context," working alongside implementers of development projects. The Save the Children Ethiopia case study (2024) demonstrates how stakeholder engagement in project design increases accountability and effectiveness. Based on this evidence, the following hypothesis is proposed:

**H6: Stronger stakeholder engagement in external audit processes positively influences operational efficiency in donor-funded development projects in Ethiopia.**

Taken together, the above six hypotheses make the claim that each aspect of audit practice positively influences operational efficiency of Ethiopian donor-funded development projects. The reviewed evidence from global, regional, and Ethiopian perspectives consistently supports these claims but also

reveals contextual factors that need to be considered when interpreting the strength of these relationships in Ethiopia. Testing these hypotheses empirically could greatly advance the understanding of how external audits influence operational efficiency in Ethiopian development projects.

### 2.2.2. Identified Research Gaps

Notwithstanding the wealth of literature reviewed, gaps remain in relation to the relationship between external audits and operational efficiency in donor-funded development projects in Ethiopia. In fact, these gaps exist in terms of theory, empirical evidence, research methods, and practice and represent opportunities for further research.

Theory gaps pertain to the lack of developed conceptual framework in the field. Institutional theory remains unexploited in explaining how pressures and expectations in regulatory, normative, and cognitive environments affect whether or not audit practices are institutionalized in Ethiopia, becoming more than mere superficial acts. Power issues in audit practices remain unexplored, especially donor-implementer dependencies, international-auditor/local-auditor asymmetries, and government dynamics that shape audit processes and outcomes. Most importantly, voices of beneficiaries – the very parties meant to benefit from both development projects and from audit practices aimed at increasing their effectiveness – are totally absent from the literature on audits. Future theorizing should look into the issue of developing a beneficiary-centric audit concept as well as power in audit practice.

Empirical gaps relate to the fact that little evidence exists in relation to Ethiopia. Empirical studies that examine relationships between audit characteristics and operational efficiency indicators are noticeably lacking in this particular case, leaving the aforementioned hypotheses unexplored. There is no longitudinal research that tracks how these relationships change over time as relationships deepen and capabilities increase. No comparative research across Ethiopia has been done so far, potentially helping reveal context-specific aspects that might moderate the relationships between audit characteristics and operational efficiency. Lastly, there is virtually no research on the implementation of audit findings after audit report delivery.

Methodological gaps involve the fact that little mixed methodology work has been done, combining quantitative analysis of the audit-relationship patterns with qualitative inquiry into the underlying mechanisms. Concerns over endogeneity have been paid little attention by researchers and rarely are

methods like instrumental variable regression or difference-in-differences employed to deal with them. Finally, there has been little participatory work involving implementing partners, government officials, and project beneficiaries as subjects and not objects.

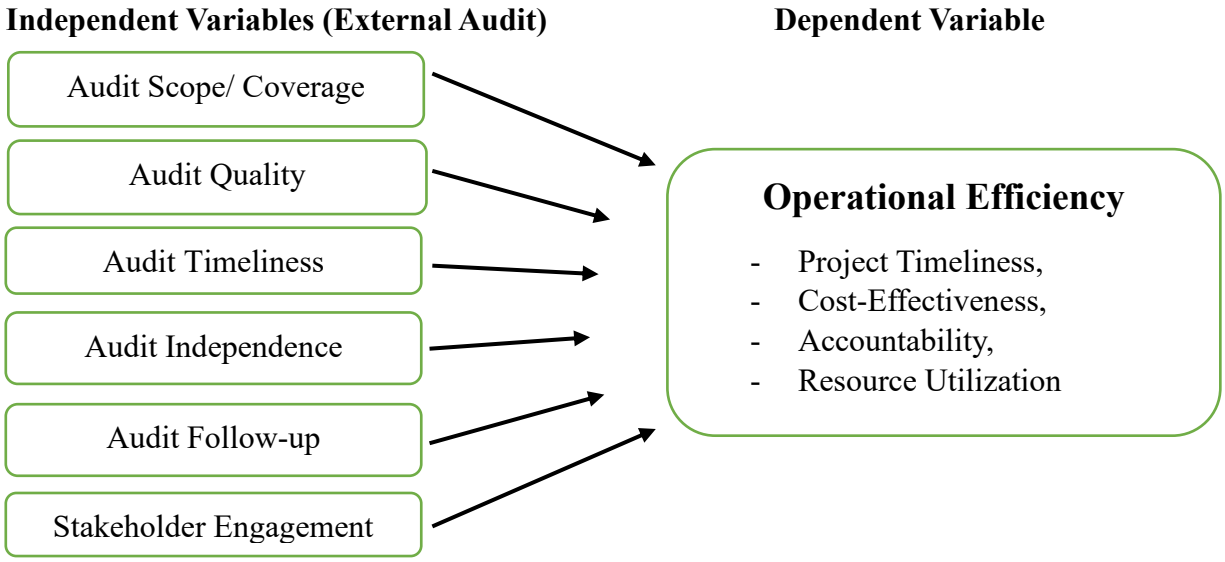
Practice gaps involve the lack of useful guidance on how to conduct audit in order to achieve certain results in practice. For example, there is hardly any work done on audit cost-benefit analysis. Little attention has been paid so far to issues related to designing audit procedures based on project characteristics and risks, as well as partners' capabilities, in order to ensure maximum efficiency. There is also very little systematic evidence on whether audit-related capacity building efforts produce positive results in partners' abilities to implement recommendations.

Closing the existing gaps through future research will help advance the understanding of the issue and move from theoretical propositions to practice.

## 2.3. Conceptual Framework

The conceptual framework takes advantage of institutional and power theories as well as the available evidence to provide a comprehensive understanding of the topic under discussion. The framework relies heavily on agency theory and conceptualizes an audit as a form of monitoring. From this standpoint, an audit is meant to mitigate information asymmetry and prevent agent misbehavior in the interest of principals. Agency theory helps explain how audits are used in development projects in Ethiopia because donor agencies tend to use projects as their vehicles of action in countries where state institutions are weak or inefficient. Thus, the concept of control becomes central to this issue. On the other hand, the theory of stewardship provides an alternative perspective on audits, considering them tools of organizational learning, trust-building, and capacity development. Through its incorporation, the conceptual framework acknowledges the need to collaborate rather than to simply perform compliance exercises.

Figure 1. Conceptual Framework of the Study




Refer to figure 1 below where the underlying logic that forms the basis of the framework indicates that audit practices act as inputs, which need to be technically sound as well as relate properly to others. The direct paths include identification and rectification of inefficiency, prevention of inefficient behaviors, putting into effect the recommendations, capacity building through auditor's capabilities, and accountability pressures that push organizations toward performing better. Audits are seen as strategic means through which organizations can increase the level of efficiency within their operations as opposed to viewing audits as simply regulatory requirements. In summary, this conceptual framework links global audit theories and Ethiopian institutions by providing a basis for understanding the impact of audits on organizational efficiency.

# CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

This chapter has elucidated on the methodology adopted in carrying out this research on the influence of external audits on operational efficiency of donor funded development projects in Ethiopia. There is a need for rigorous explanation of the research methodology used since it involves a step-by-step account of data gathering and measuring process. It highlights why certain methods were used to obtain information, measure variables and analyze the data collected. It will also give explanations concerning the manner in which ethical considerations were taken care of since the research topic involves evaluation of sensitive projects.

This methodological design took note of both the role played by audit in terms of control and development in view of the theories mentioned earlier. It thus entailed the selection of appropriate variables, measurement instruments and statistical techniques of data analysis. The operational definition of operational efficiency considered in this study comprised various elements namely, timeliness, cost-effectiveness, accountability and resource utilization.

Through the proposed methodology, this study has been able to establish the extent to which donor projects have become efficient as a result of external audits. This has been possible in view of the manner in which audit and efficiency have been viewed as key strategies for improving efficiency in donor funded projects.

## 3.1. Research Approach

In undertaking this research, the quantitative research approach has been employed. This was justified by the desire to examine and analyze the relationship between the practice of auditing (quality, scope, timeliness, independence and follow up) and operational efficiency. It should be noted that operational efficiency in this study is a composite variable comprising various elements such as timeliness, cost-effectiveness, accountability and resource utilization.

Justification for adopting a quantitative research approach is mainly based on the advantage inherent in generating objective and replicable evidence. With respect to this study, data and information have been collected and quantified in order to enable the researcher to conduct an analysis through the

application of statistical techniques. This has been done through correlation and regression techniques.

In quantitative research design, there is systematic gathering of information and transformation of this information into quantifiable form for easy analysis. This makes it easier for researchers to test theories and establish objective evidence. According to Hair et al. (2022), one of the advantages associated with conducting quantitative studies is that they allow researchers to develop formalized explanations of theoretical propositions. This is because the approach facilitates objective and rigorous analysis of data collected during the research process.

The Ethiopian context where numerous donor projects are undertaken has required researchers to take this particular approach. This is in recognition of the diversity of these projects with respect to geographical distribution. Adopting this approach makes it easier for researchers to present results in a more systematic manner. Besides, it enhances transparency in communicating results of the research.

## 3.2. Research Design

For purposes of undertaking the current research, an explanatory research design was adopted. This type of research design has been employed due to the nature of the research topic where causality needs to be established. As explained by Saunders et al. (2019), explanatory research is focused on examining the way two or more variables interact and result into change in another. The design has enabled this study to go beyond description and explain causal relationships that exist between audit practices and efficiency.

It has enabled this study to test various hypotheses related to the research problem under consideration. This has been made possible through the use of descriptive as well as inferential statistical techniques. The latter includes correlation and regression analyses which enable one to establish whether any relationship exists between variables and the direction of this relationship. Through the former, the researcher was able to present profiles of various stakeholders involved in the projects.

Explanatory research has enabled this study to clearly understand the mechanisms through which external audits affect operational efficiency. This design has been able to offer insight into the way in which the relationship between audit practices and efficiency has manifested itself in different

projects. Descriptive analysis has facilitated the process of presenting results systematically. Inferential analysis, on the other hand, was employed to confirm whether any relationship exists between variables.

## 3.3. Population of the Study

The population of this study will comprise donor funded public development projects implemented at national level such as federal, regional zonal woredas and cities/towns, National projects are designed to manage their financial and audit arrangements at the federal level, despite their implementation being carried out across multiple administrative layers, ranging from federal to woreda level  These projects will provide a rich context for examining the relationship between external audits and operational efficiency, as they involve multiple stakeholders, complex accountability chains, and significant donor investment

The unit of measure in this study was the project level interventions which involved various sectors mentioned above. In this way, the study would facilitate sectoral comparison in addition to offering cross case study. In this regard, all aspects of project development have been included in this study. This made it easy to draw comprehensive conclusions with regards to influence of external audit on operational efficiency of donor projects. These informants include:

- Government agencies such as the Ministry of Finance, Ministry of Agriculture, Ministry of Health, Ministry of Water and Energy, Ministry of Education, Ministry of Urban and Infrastructure and Addis Ababa Education Bureau.
- Donor representatives from organizations including the World Bank, African Development Bank, UNFPA, UN-Women, UNICEF, UNDP, WFP, and UN Habitat.
- Implementing partners and NGOs, such as Save the Children, World Vision Ethiopia, and local civil society organizations engaged in project delivery.
- Audit and oversight bodies, including the Office of the Federal Auditor General (OFAG), Audit Service Corporation, Independent audit firms, and donor appointed verification agents.

Thus, the survey has been able to collect information from all these stakeholders since they are key players in determining the nature and quality of audit and operational efficiency in donor funded development projects. They comprise both government institutions, private entities and non-governmental organizations.

## 3.4. Sampling Technique

This study will employ a stratified random sampling technique to ensure representativeness across the major stakeholder groups involved in donor-funded development projects in Addis Ababa namely urban infrastructure, health, education, community development, housing, social protection, climate/environment, and governance. In addition, three flagship national programs are implemented at multiple administrative levels, including federal, regional, zonal, woreda, and town/city levels - Urban Institutional and Infrastructure Development Program (UIIDP), Productive Safety Net Program (PSNP), and General Education Quality Improvement Program for Equity (GEQIP-E) — will be included to guarantee national-level representation. This stage will ensure that the sample captures the breadth of donor-funded interventions across diverse domains.

The total population in this study comprises 794 stakeholders and four strata have been developed from this population. In this regard, the strata include government agencies, donors, implementing partners and audit and oversight bodies. The reason for developing such strata stems from the fact that different stakeholders play unique roles in project development.

Proportionate allocation was used in selecting respondents in each of these strata. In this regard, respondents were selected in proportion to the share of each stratum in the total population. This will ensure representation of different strata without over sampling small strata and understating large strata. Since there are differences among stakeholders, there is a need for representing their unique roles in the sample. Justification for using this sampling technique is presented below.

This study justifies adopting this technique for various reasons. In this research, the population involved has been diverse as compared to a homogeneous population. This is because there is a difference in terms of functions performed by each stakeholder. Therefore, this method ensures that each unique category is taken into consideration. Proportionate allocation also enhances representativeness. In this technique, respondents are allocated to each stratum in accordance with the proportion in the entire population. As a result, bias will be minimized. Another advantage is that the technique reduces variability as well as improves estimation. Since variation within each stratum is less as compared to variation in entire population, estimations are accurate.

## 3.5. Sample Size Determination

Sampling was a strategy in which a representative selection of people was done for research purposes. When it was not possible to conduct a full census, sampling was used. Considering the size of the target population, 794, it was possible to calculate a representative sample size using the Slovin formula, which is a simplified form of the formula recommended by Yamane (1967). The formula used in this research is as follows:

$$n = \frac{N}{1+N(e^2)} = \frac{794}{1+(794*0.05^2)} = 266$$

Where:

- N -Designates total number of target project staff;
- e - Designates maximum variability or margin of error 5% (0.05); and
- n- designates computed sample size.

With a total population of 794 stakeholders and a 5% margin of error at a 95% confidence level, the minimum required sample size will be approximately 266 respondents.

Table 1. Population Distribution and Proportionate Sample Aize Allocation

| Stratum / Sector | Population (Ni) | Proportion of Pop. A=(Ni/794) | Sample Prop. (B=A*266) |
|---|---|---|---|
| Government agencies | 327 | 41.2% | 110 |
| Donor representatives | 133 | 16.8% | 45 |
| NGOs / partners | 280 | 35.3% | 94 |
| Audit / Oversight bodies | 54 | 6.8% | 18 |
| Total | 794 | | 266 |

(Source: Addis Ababa City Administration, 2025; Ethiopian Civil Society, 2025)

## 3.6. Sources of Data

Regarding the survey conducted among professional staff of donor-funded development projects in Ethiopia, the study intended to conduct further analysis on perceptions and attitudes of professionals in relation to operational aspects of donor-funded development projects. This survey was intended to assess perceptions and attitudes related to the scope, quality, timeliness, auditor independence, implementation feedback, and stakeholder involvement of the external audit process and the

operational efficiency of these development projects. Hence, the present study relies on one single primary source of data only.

The primary reason for relying on primary data sources was due to the benefits of the method in gathering fresh information. Using primary data, it was possible to collect very relevant and updated information, which is useful for the researcher since the data will be fresh and relevant to the research problem. This information was helpful for the researcher to explore new ideas regarding the topic since it will provide information that cannot be found anywhere else, thus making it possible for the researcher to have an in-depth understanding of the external audit process and operational efficiency. This includes information on the way the external audit process works, its implementation, and its contribution towards efficient operation of the project.

Another reason for choosing the primary data collection method was the lack of existing literature on the connection between the external audit process and operational efficiency. Secondary data collection methods include collecting already available information such as audit reports, development project reports, and other existing literature. Such data cannot help in revealing the perceptions of professionals and the real situation on the ground, thus failing to establish a direct connection between the two constructs.

## 3.7. Data Collection Instrument

A survey questionnaire was used as a tool for collecting primary data in this study. According to Creswell and Creswell (2018), the use of a questionnaire is a cheap and effective means to collect data from people even if the universe is large and dispersed across various locations. People who are not easy to reach can be reached easily by this tool, and therefore, large samples can be collected. Results obtained from this tool are highly dependable. The questionnaire consists of three parts. The first part contains the demographic characteristics of the respondents; the second and third parts involve a five-point Likert scale (1 - Strongly Disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, and 5 - Strongly Agree) reflecting the degree of agreement of respondents toward the research constructs, External Audit Quality and Operational Efficiency, respectively. The external audit quality involves six indicators (scope, quality, timelines, auditor independence, implementation feedback and stakeholder involvement, and audit recommendation follow-up).

These measures of audit quality were adopted from the audit quality study conducted in development projects by Mbelwa (2020), where the audit quality measures were slightly modified without changing their fundamental meanings in the context of Ethiopia. The operational efficiency measure adopted was also adopted from the Project Management Institute standards (PMI, 2021), which include resource utilization, timeliness of deliverables, milestone achievement, cost-effectiveness, and stakeholder satisfaction.

## 3.8. Data Collection Procedure

This research work was carried out in a face-to-face manner to satisfy academic requirements. Questionnaires were distributed to 30 respondents at randomly selected donor-funded project offices in Addis Ababa, where the participants of the pilot test were excluded in order to assess the reliability and validity of the scale measures. As for the validity test, content validity was done through reviewing and editing the contents by professionals in the fields such as academic advisors, donor organization auditors, and project managers, respectively. After confirming the validity and reliability of the questionnaires, the researcher distributed them to targeted respondents until the desired sample size was obtained. The respondents completed the questionnaires after having fully understood the objective of the survey.

## 3.9. Data Analysis and Presentations

Descriptive and inferential statistical analysis techniques were used in analyzing the quantitative data generated from the structured questionnaire. Quantitative data collected in the form of a questionnaire were coded and entered into SPSS version 26.0 software. Descriptive statistics were used to assess the nature of the data collected and to establish the relationship between variables. Internal consistency of the questionnaire was tested by calculating Cronbach's alpha coefficients.

This study utilized a multiple linear regression analysis model to test hypotheses based on the conceptual framework. The regression analysis technique estimates the parameters of linear equations with one or more independent variables that predict values of the dependent variable. The multiple linear regression analyses were applied to investigate the correlation between external audit quality factors and operational efficiency. In respect to model specification, the main objective of the study

was to find out whether there was any significant relationship between external audit quality and operational efficiency.

Model Specification: To evaluate the relation, the multiple linear regression model for testing the formulated hypotheses is designed as:

$$Y = \beta 0 + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \beta 5\ X5 + + \beta 6\ X6 + e$$

Substituting the model with this expression is presented as:

$$PERF = \beta 0 + \beta 1\ SCOP + \beta 2\ QALT + \beta 3\ TIME + \beta 4\ INDP + \beta 5\ FEED + \beta 6\ STAK + e$$

Where:

Y = PERF = Overall Operational Efficiency;
X1 = SCOP = Audit Scope;
X2 = QALT = Audit Quality;
X3 = TIME = Audit Timeliness;
X4 = INDP = Auditor Independence;
X5 = FEED = Audit Follow-up and Recommendation; and
X6 = STAK = Stakeholder Involvement
e = error term; β0 = constant term; β1, 2, 3, 4, 5 and 6 = coefficient terms.

The regression output comprised the coefficient of determination (R2 value), the regression coefficient (Beta coefficient), and the P-values for the significance of the model (ANOVA Test). Correlation coefficients were used to quantitatively describe the strength of the association between the variables.

## 3.10. Validity Test

Validity was the most important criterion that showed how well the instruments were capable of measuring what they were supposed to measure (Creswell & Creswell, 2018). There were several ways of testing the validity of this study. For example, it was carried out from reliable sources (respondents who had experience in the external audit process and operation of donor-funded projects). Survey questions used in this study were developed following a literature review on the topic so that result validity can be ensured. In addition to this, logical inference was made for developing a relevant measure for the outcome variable. Content and construct validities were

checked to confirm the validity of the research design. The customized final questionnaire of the adopted questionnaire was subjected to review by project managers, the thesis advisor, and respondents from selected donor-funded projects. Comments and suggestions were made for clarifying the jargon and technical terms of the survey.

## 3.11. Reliability Test

"Reliability" referred to internal consistency and was concerned with the consistency with which the measurement instrument measured a particular thing. This means that if something is measured several times and the result comes up to be same every time, then the instrument can be considered to be reliable (Bryman & Bell, 2019). Cronbach's alpha was widely used for testing internal consistency. In simple terms, this test calculates the average of all the possible split-half reliability coefficients. Values of the alpha coefficient ranged between 0 (absence of internal reliability) and 1 (internal reliability). Higher values of internal reliability (>.07) were generally accepted as satisfactory levels. In this study, Cronbach's alpha test was used for testing the internal consistency of the constructs. Cronbach's alpha (r) was a measure of internal reliability coefficient ranging between 0 and 1. A value of coefficient alpha between 0.6 and 0.7 represents fair reliability (Zikmund et al., 2013).

*Table 1: Results of Reliability Test*

| **Variables** | **No. of Items** | **Cronbach's Alpha** |
|---|---|---|
| Audit Scope/Coverage | 6 | .839 |
| Audit Quality | 5 | .776 |
| Audit Timeliness | 4 | .801 |
| Auditor Independence | 4 | .740 |
| Feedback/Follow up | 6 | .815 |
| Stakeholder Engagement | 5 | .765 |
| Operational Performance | 6 | .820 |
| **Overall Reliability** | 36 | .934 |

Source: Own Questionnaire, 2026

The reliability of the measurement constructs was assessed using Cronbach's Alpha, with results demonstrating strong internal consistency across all scales. The independent variables - Audit Scope/Coverage (α = .839), Audit Quality (α = .776), Audit Timeliness (α = .801), Auditor Independence (α = .740), Feedback/Follow-up (α = .815), and Stakeholder Engagement (α = .765) - all exceeded the minimum threshold of 0.70, indicating acceptable to excellent reliability. The dependent variable, Operational Performance, also demonstrated strong reliability (α = .820). Overall scale reliability was exceptionally high (α = .934 across 36 items), confirming that the instrument consistently measures the intended constructs. These results provide confidence in the robustness of the survey instrument and support its suitability for subsequent inferential analysis.

## 3.12. Ethical Considerations

The researcher should consider ethical principles when conducting research work on human subjects in order to protect participants and ensure ethical research. The researcher should make sure that participants were not exposed to professional harm or risk during the course of conducting research. In this regard, the researcher ensured that all the respondents were fully aware of the purpose of the research, procedure to be followed, and possible risks associated with participation. Participants' consent was obtained, and participation was made entirely voluntary, and hence, respondents had the freedom to drop out at any stage of the research without consequences.

Ethical research also required that respondents' privacy and confidentiality be respected by only gathering necessary information such as age, sex, and professional experience rather than any other personal information and storing data safely in places that would be accessible only by the researcher. Transparency was another ethical consideration, which was followed in this research by informing the respondents about the purpose of the research beforehand and not misleading them about any matter. Finally, the researcher followed the ethical guidelines stipulated by Addis Ababa University and other human subject research around the world.

# CHAPTER FOUR

# DATA PRESENTATION, INTERPRETATION AND DISCUSSION

This chapter presents the results of the data analyses and their interpretations. The analyses were summarized under descriptive and inferential analysis. The descriptive statistics describe the demographic profile of respondents and analysis of responses for each attribute. Inferential statistics include scale correlation tests, assumptions for the linear regression model, and multiple linear regression analysis.

## 4.1. Response Rate

Table 2: Response Rate

| Questionnaire | Frequency | Percentage (%) |
|---|---|---|
| Total distributed | 266 | 100.0 |
| Unreturned questionnaire | 26 | 9.8 |
| Returned questionnaire | 240 | 90.2 |
| Response errors | 15 | 5.6 |
| Total valid and usable returned questionnaires | 225 | 84.6 |

*Source: Own Survey, 2026*

Table 2 shows the response rate for the questionnaires issued. The questionnaire received a good response with a total number of 266 questionnaires distributed to the targeted group. Out of the 266 questionnaires distributed, 240 were filled and submitted, giving a response rate of 90.2%. This good response rate shows that the participants had an interest in the research, hence minimizing non-response bias. While the response rate is impressive, there were 26 questionnaires (9.8%) that were not returned. Apart from that, 15 (5.6%) questionnaires were rejected because they had incomplete information or exhibited response patterns that compromised data quality. After screening, the total usable questionnaires were 225, resulting in an 84.6% response rate.

The high response rate (84.6%) implies that the findings are likely representative of the target population and that the risk of non-response bias is minimal. For donor-funded development projects, this level of engagement suggests that project staff and stakeholders perceive external audits as a relevant and pressing organizational issue, warranting further investment in audit-driven

improvements. This confirms that the achieved sample size was sufficient to detect medium effects in the planned analyses, thereby ensuring methodological robustness.

### 4.2. General Information about the Respondents

Table 3: Demographic Characteristics of Respondents (n = 225)

| Character | Category | N | (%) |
|---|---|---|---|
| **Gender** | Male | 124 | 55.1 |
| | Female | 101 | 44.9 |
| **Age** | 20–29 years | 68 | 30.2 |
| | 30–39 years | 97 | 43.1 |
| | 40–49 years | 42 | 18.7 |
| | 50+ years | 18 | 8.0 |
| **Education** | Diploma | 12 | 5.3 |
| | Bachelor | 156 | 69.3 |
| | Master | 57 | 25.3 |
| **Sector/Organization** | Government agencies | 96 | 42.7 |
| | Donor representatives | 38 | 16.9 |
| | NGO/Implementing partners | 79 | 35.1 |
| | Audit/Oversight bodies | 12 | 5.3 |
| **Program Area** | Urban infrastructure | 31 | 13.8 |
| | Education | 28 | 12.4 |
| | Health | 52 | 23.1 |
| | Social protection | 25 | 11.1 |
| | Governance | 24 | 10.7 |
| | Housing | 18 | 8.0 |
| | Climate/Environment | 22 | 9.8 |
| | Community development | 25 | 11.1 |

Table 4: Demographic Characteristics of Respondents (n = 225) … Continued.

| | | | |
|---|---|---|---|
| **Role in Donor-Funded Projects** | Project planning | 34 | 15.1 |
| | Auditor | 28 | 12.4 |
| | Coordinator | 67 | 29.8 |
| | Financial manager | 41 | 18.2 |
| | Operation manager | 55 | 24.4 |
| **Years of Experience** | <5 years | 48 | 21.3 |
| | 5–10 years | 94 | 41.8 |
| | 11–15 years | 56 | 24.9 |
| | 16+ years | 27 | 12.0 |

*Source: Own Survey, 2026*

The demographic distribution in Table 3 and 4 highlight a balanced gender composition, with males (124; 55.1%) slightly outnumbering females (101; 44.9%).

Age distribution shows a predominantly early-to-mid-career workforce, as 165 respondents (73.3%) are below 40 years: 68 (30.2%) aged 20–29 and 97 (43.1%) aged 30–39. Only 18 (8.0%) are aged above 50, reflecting limited late-career representation in donor-funded project implementation.

The workforce composition implies that donor-funded projects have an opportunity to invest in long-term capacity building and professional development, as younger employees are generally more adaptable to audit recommendations and process innovations. However, the scarcity of experienced senior staff (only 12.0% with >15 years of service) suggests a risk of knowledge loss and may indicate retention challenges in development projects.

Educational attainment is notably high: the majority hold bachelor's degrees (156; 69.3%). Master's degrees account for 57 (25.3%), while diplomas represent only 12 (5.3%). This indicates a workforce that is overwhelmingly educated, aligning with the professional demands of donor-funded project management. The high educational level of respondents enhances the reliability of the survey data, as participants possess the cognitive skills to accurately interpret questionnaire items related to audit practices and operational efficiency. From a managerial perspective, this educated workforce

represents a valuable resource that can be leveraged for continuous improvement initiatives, provided that audit recommendations are communicated effectively.

The distribution of respondents across sectors shows that the majority were drawn from government agencies (96; 42.7%), reflecting the central role of public institutions in implementing donor-funded projects. The second largest group came from NGOs and implementing partners (79; 35.1%), underscoring their importance in project delivery. Donor representatives accounted for 38 (16.9%), while audit and oversight bodies represented only 12 (5.3%). This representation of core stakeholder groups ensures that the study captures diverse perspectives on audit practices and efficiency outcomes. However, the under-representation of audit/oversight bodies suggests that the study's findings may be more reflective of auditee perspectives than auditor perspectives, which could be explored in future research.

Program area analysis reveals that health projects (52; 23.1%) form the largest group, followed by urban infrastructure (31; 13.8%) and education (28; 12.4%). Community development, social protection, and governance each account for approximately 11% of respondents. This distribution reflects the sectoral priorities of donor funding in Ethiopia.

Role analysis shows that coordinators (67; 29.8%) form the largest group, followed by operation managers (55; 24.4%) and financial managers (41; 18.2%). Project planning staff account for 34 (15.1%), while auditors represent only 28 (12.4%).

Service years reinforce this pattern: the largest group of respondents (94; 41.8%) have 5–10 years of experience, while 56 (24.9%) have 11–15 years. Only 27 (12.0%) have more than 16 years of experience.

The predominance of mid-level coordinators and managers means that the perceptions captured in this study primarily reflect the views of operational and supervisory personnel rather than strategic decision-makers. This is both a strength (ground-level reality of audit implementation) and a limitation (limited visibility into strategic audit policy decisions). Organizations should consider mentorship programs that pair junior staff with experienced personnel to accelerate learning and improve audit responsiveness.

### 4.3. Descriptive Analysis of Study Variables

This section provides a descriptive analysis of the study variables, focusing on external audit practices (six dimensions) and operational efficiency. The respondents' perspectives are measured using statistical measures: mean and standard deviation. Based on the interpretation scale (Best, 2005), mean scores between 1.01–1.80 indicate very low agreement; 1.81–2.60 low agreement; 2.61–3.40 moderate agreement; 3.41–4.20 high agreement; and 4.21–5.00 very high agreement. Standard deviation values emphasize the extent of discordancy in opinions, since scores > 1.000 reflect substantial difference of opinion among respondents.

#### 4.3.1. Audit Scope and Coverage

Table 5: Description of Audit Scope and Coverage (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| External audits in my organization cover all major financial transactions | 3.73 | 1.801 |
| Audit scope includes procurement processes and contract management | 3.41 | 1.893 |
| Audit coverage extends to project implementation activities | 3.25 | 1.906 |
| External audits examine compliance with donor requirements | 4.24 | 1.525 |
| Audit scope addresses both financial and operational aspects | 3.96 | 1.675 |
| External audits provide comprehensive coverage across reporting periods | 2.96 | 1.846 |
| **Grand Mean (SCOP)** | **3.59** | **1.325** |

*Source: Own survey data (2026)*

The practices that promote audit scope and coverage were generally rated positively by respondents. As can be seen from Table 5, the grand mean was M = 3.59 (SD = 1.325). Compliance examination with donor requirements was ranked at the top (M = 4.24, SD = 1.525). As shown by the rating, this practice was highly valued by respondents since it guarantees alignment between project operations and donor expectations. Addressing both financial and operational aspects received the next highest rating (M = 3.96, SD = 1.675) due to the recognition that comprehensive audit coverage enhances project oversight.

In terms of the least preferred practice, comprehensive coverage across reporting periods emerged at the lowest rank (M = 2.96, SD = 1.846), whereas coverage of project implementation activities was

the next lowest (M = 3.25, SD = 1.906). It can be concluded that while donor compliance is rigorously audited, there are gaps in the temporal coverage of audits and in the examination of field-level implementation activities. The relatively high standard deviations (>1.5 for most items) indicate substantial variation in respondents' experiences, suggesting that audit scope practices are not applied uniformly across donor-funded projects in Ethiopia.

Generally, the grand mean shows that there are moderate levels of audit scope and audit coverage, which put a lot of focus on donor compliance while not much attention is placed on the implementation of the projects and the reporting periods. This is indicative of an environment that places more importance on external rather than internal accountability. If the comprehensive nature of both audit scope and audit coverage was improved, it would result in efficiency and value creation in donor-funded projects. Organizational wise, a comprehensive audit scope is beneficial when seeking inefficiencies in procurement, implementation, and accounting. Comprehensive coverage ensures information is collected, which is used in implementing corrective actions and avoiding any potential issues that might arise from incomplete oversight.

### 4.3.2. Audit Quality

Table 6: Description of Audit Quality (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| External audits are conducted by competent and qualified professionals | 3.53 | 1.825 |
| Audit procedures follow recognized international standards | 4.21 | 1.571 |
| Audit findings are reliable and evidence-based | 4.14 | 1.559 |
| External audits demonstrate rigor in testing financial records | 3.90 | 1.770 |
| Audit reports provide clear and accurate conclusions | 3.44 | 1.846 |
| **Grand Mean (QALT)** | **3.84** | **1.248** |

*Source: Own survey data (2026)*

With regard to the grand mean score of M = 3.84 (SD = 1.248), the positive perception of audit quality practices can be noted because of exceeding the neutral midpoint of 3.0. Thus, this dimension can be regarded as a relatively strong one in the context of donor-funded projects in Ethiopia. However, taking into account relatively high standard deviations, the existence of inconsistencies within

organizations is possible. Therefore, some organizations should be characterized by high audit quality practices, whereas others should demonstrate weak or inconsistent ones.

Adherence to international standards received the highest rating with the average score of M = 4.21 (SD = 1.571). The necessity of employing standardized approaches in terms of methodologies of IFRS or INTOSAI guidelines can be justified. At the same time, another highly evaluated attribute can be the reliability and evidence basis of audit findings with the mean of M = 4.14 (SD = 1.559). The significance of such an attribute is evident because of relying on factual information for making informed decisions.

Thus, the compliance with international standards and the evidence basis of audit findings can be considered as core attributes among all other ones. In this case, the credibility of auditing procedures can be ensured. In turn, the lowest evaluated attribute is clarity and accuracy of audit conclusions with the average score of M = 3.44 (SD = 1.846). Despite the accuracy of audits in terms of technical aspects, the ability to communicate audit reports to stakeholders effectively becomes crucial.

Similarly, the competence of audit professionals is assessed quite negatively with the mean of M = 3.53 (SD = 1.825). Such a situation can be explained by the lack of sector-specific expertise in donor-funded projects because the knowledge of compliance, procurement, and development finance becomes significant in such organizations. Donor-funded projects in Ethiopia are characterized by the high level of external legitimacy because of the compliance with international standards and evidence-based audit findings. On the contrary, some issues related to internal usability exist because of poor communication of audit conclusions and low competence of audit professionals.

### 4.3.3. Audit Timeliness

Table 7: Description of Audit Timeliness (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| External audits are completed within agreed timelines | 2.99 | 1.961 |
| Audit schedules align with project cycles | 2.74 | 1.933 |
| Audit reports are delivered promptly for decision-making | 3.47 | 1.904 |
| Timely audits help prevent delays in project implementation | 3.60 | 1.899 |
| **Grand Mean (TIME)** | **3.20** | **1.523** |

*Source: Own survey data (2026)*

The grand mean score M = 3.20 (SD = 1.523) reflects that there is a perception about timely auditing to be associated with efficiency of operations at a moderate degree. Since the figure is higher than neutral, we can conclude that even though the participants find timely audits significant, they do not experience it as such in the projects they work in. The considerable standard deviation emphasizes the difference in people's experiences and the inconsistencies in using the practice of timely audits.

As it can be seen, among the statements, the perception that timely audits minimize delays (M = 3.60, SD = 1.899) received the highest rate. This finding means that people recognize timely audits as crucial for ensuring smooth operation of projects. It also shows the understanding that without timely audits, it would be difficult to avoid potential delays or even problems during the project implementation process. The other statement associated with timely delivery of audit reports for making managerial decisions (M = 3.47, SD = 1.904) was also ranked quite high by participants.

However, timely completion of audits as planned (M = 2.99, SD = 1.961) and synchronization of audits with project cycles (M = 2.74, SD = 1.933) received rather low rates. This implies that in many cases, project managers struggle to synchronize audits with project activities. As a result, audit conclusions are delivered too late and cannot be used to adjust project performance. Since SD >1.8 in all cases, it can be concluded that there is considerable variability in applying the practice of timely audits in some projects but not in others.

### 4.3.4. Auditor Independence

Table 8: Description of Auditor Independence (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| External auditors operate free from organizational influence | 3.50 | 1.791 |
| Independence of auditors enhances credibility of audit results | 4.22 | 1.501 |
| Audit findings are reported objectively without bias | 3.95 | 1.738 |
| External auditors maintain autonomy in their assessments | 3.41 | 1.699 |
| **Grand Mean (INDEP)** | **3.77** | **1.263** |

*Source: Own survey data (2026)*

From the findings contained in Table 8, it is clear that auditor independence practices have been rated positively, with a grand mean of 3.77 (SD = 1.263). The dimension that has received the highest mean

score is the perception that independence enhances credibility, with a mean of 4.22 (SD = 1.501). This indicates that respondents recognize the foundational importance of independence for audit credibility. Objective reporting without bias also received a good rating (mean = 3.95, SD = 1.738).

However, the perception that auditors maintain autonomy in assessments received a relatively lower rating (mean = 3.41, SD = 1.699), and freedom from organizational influence received a moderate rating (mean = 3.50, SD = 1.791). These scores suggest that while the value of independence is widely recognized, there may be perceived constraints on actual auditor autonomy in practice.

The standard deviations (>1.5 for most items) indicate variation in perceptions across different projects and stakeholders. In accordance with agency theory, as formulated by Jensen and Meckling (1976), perceived independence constraints increase informational asymmetry concerns, making it more challenging for donors to exercise effective oversight over implementing agents. Overall, the findings demonstrate that auditor independence is perceived as a strong contributor to audit credibility, but practical challenges remain in ensuring autonomy and freedom from influence. Strengthening institutional safeguards, reinforcing professional ethics, and minimizing organizational pressures would help auditors maintain independence consistently. This, in turn, would enhance the credibility of audit findings and improve donor oversight in Ethiopian development projects.

### 4.3.5. Audit Feedback and Follow-Up

Table 9: Description of Audit Feedback and Follow-Up (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| Audit recommendations are communicated clearly to management | 3.42 | 1.924 |
| Follow-up mechanisms ensure recommendations are acted upon | 3.01 | 1.891 |
| My organization implements corrective actions based on audit findings | 3.72 | 1.821 |
| External audits contribute to continuous improvement | 4.15 | 1.570 |
| Audit feedback enhances accountability in project operations | 3.67 | 1.842 |
| Recommendations from audits strengthen financial and operational controls | 4.04 | 1.643 |
| **Grand Mean (FEED)** | **3.67** | **1.288** |

*Source: Own survey data (2026)*

The scores provided in Table 9 indicate that audit feedback and follow-up practices are perceived as moderately impactful. The grand mean of 3.6696 (SD = 1.28743) indicates that this dimension is

important for organizations within the donor-funded project environment. When considering the various dimensions, the contribution of audits to continuous improvement is given the most significant value, with a mean of 4.15 (SD = 1.570). It indicates that respondents recognize the learning potential of external audits. Strengthening of financial and operational controls received high scores as well, with a mean of 4.04 (SD = 1.643).

On the other hand, follow-up mechanisms ensuring recommendations are acted upon received the lowest score (mean = 3.01, SD = 1.891), and clear communication of recommendations to management received a relatively low rating (mean = 3.42, SD = 1.924). These findings suggest that while audits produce valuable recommendations, the mechanisms for ensuring implementation are perceived as weak. Implementation of corrective actions received a moderate rating (mean = 3.72, SD = 1.821).

In sum, these findings suggest that audit feedback is valued for its contribution to learning and control strengthening, but follow-up mechanisms remain underdeveloped. The high variability across projects indicates that some organizations benefit from strong feedback systems, while others struggle with weak communication and poor enforcement of recommendations. From a governance perspective, this gap undermines the potential of audits to drive operational efficiency and accountability. Audit feedback and follow-up practices are moderately effective, with strong recognition of their role in continuous improvement and control strengthening. However, weaknesses in communication and follow-up mechanisms limit their impact. Strengthening the enforcement of suggestions, improving communication clarity, and institutionalizing corrective action processes would ensure that audit feedback translates into tangible improvements in donor-funded projects.

### 4.3.6. Stakeholder Engagement

Table 10: Description of Stakeholder Engagement (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| Stakeholders are engaged during audit planning | 3.02 | 1.946 |
| Donors participate in discussions of audit findings | 3.43 | 1.947 |
| Project managers are consulted during audit processes | 3.93 | 1.711 |
| Stakeholder involvement improves responsiveness to audit results | 3.48 | 1.880 |
| Stakeholder engagement enhances compliance with audit recommendations | 3.88 | 1.738 |

| | | |
|---|---|---|
| **Grand Mean (STAK)** | **3.57** | **1.327** |

*Source: Own survey data (2026)*

Grand mean score M = 3.57 (SD = 1.327) shows the high degree of stakeholder engagement practices as the significant component of audit. It supports the assumption that the role of engagement is one of the major issues that must be considered when discussing the effectiveness of the audit processes; at the same time, the application of these practices varies greatly between different projects and stakeholders.

Consultation with project managers within the process of audit was considered the most important attribute (M = 3.93, SD = 1.711). This attribute suggests that project managers participate in engaging with the stakeholders and thus become an integral part of the audit process. Moreover, another relatively important attribute with regard to engagement concerns its contribution to the compliance improvement (M = 3.88, SD = 1.738).

In contrast, the least valued attribute is related to stakeholder engagement in preparation for the audit (M = 3.02, SD = 1.946), which means that stakeholders do not contribute to this process, which is necessary to ensure that all their interests are met in the course of audit. At the same time, discussion of audit results with donors (M = 3.43, SD = 1.947) and responsiveness to audit results through engagement practices (M = 3.48, SD = 1.880) were considered relatively positively.

Summarizing the aforementioned attributes, it can be said that stakeholder engagement is of high importance regarding consultations of project managers and compliance improvements but less relevant concerning the preparation stage and the responsiveness to audit results. Therefore, the variability of engagement practices between different projects suggests the absence of certain standard procedures. As far as the governance issue is concerned, more attention should be paid to this aspect. As a conclusion, it is important to note that stakeholder engagement is of moderate importance concerning the project managers' consultations and compliance improvements. Still, it is necessary to address the issues of planning engagement and responsiveness to audit results to increase its effectiveness.

### 4.3.7. Operational Efficiency (Performance)

Table 11: Description of Operational Efficiency (n = 225)

| Statement | Mean | Std. |
|---|---|---|
| External audits improve timeliness of project implementation | 3.51 | 1.494 |
| Audit practices enhance cost-effectiveness of project operations | 3.41 | 1.389 |
| External audits strengthen accountability in resource utilization | 4.22 | 1.456 |
| Audit findings help reduce wastage of project resources | 3.47 | 1.530 |
| External audits improve transparency in project management | 3.57 | 1.227 |
| Audit recommendations contribute to sustainable efficiency gains | 3.62 | 1.201 |
| **Grand Mean (PERF)** | **3.63** | **1.007** |

*Source: Own survey data (2026)*

Referring to table 11, the overall mean score of M = 3.63 (SD = 1.007) shows that the audit practices used are highly valuable and efficient means for improving operational efficiency in donor-funded projects. This high score, exceeding the neutral point significantly, proves the efficiency and importance of audits and its effect on efficiency. In addition, rather small values of SD compared to those in other dimensions show high consistency in opinions among participants about efficiency of audits and its effect on donor-funded projects.

The strongest dimension was improvement of accountability in terms of utilization of resources (M = 4.22, SD = 1.456). It shows that one of the main purposes of audits in these cases is accountability and the necessity to use resources properly and according to donors' requirements. It can help avoid misuse of the provided funds and increase confidence of the donors. Second highest mean score relates to the sustainability of efficiency improvement (M = 3.62, SD = 1.201).

Moderately high scores characterize improvement of transparency (M = 3.57, SD = 1.227) and improvement of timeliness (M = 3.51, SD = 1.494). It means that audits have some effect on improving processes and making them faster. Nevertheless, this aspect does not stand out very much in the case of external audits. Finally, rather low scores were found for the dimension concerning improvement of cost-effectiveness (M = 3.41, SD = 1.389) and decrease of resource wastage (M = 3.47, SD = 1.530).

Thus, it can be stated that audit practices have the greatest impact on accountability and transparency, which plays an important role in increasing donor confidence. At the same time, low scores in terms of cost-effectiveness improvement show that such audits still have room for improvements in terms of effectiveness and operation optimization. To sum up, it can be concluded that external audits are important elements of operation of any company and have the greatest effect on increasing efficiency in terms of accountability and transparency. However, lack of effect on cost-effectiveness and timeliness of the process requires some additional efforts to make audits more efficient and operationally focused in the future.

### 4.3.8. Summary of Descriptive Analyses

Table 12: Summary of Descriptive Analyses

| Domain | Mean (M) | Standard Deviation (SD) |
|---|---|---|
| Audit Scope/Coverage (SCOP) | 3.5904 | 1.32530 |
| Audit Quality (QALT) | 3.8427 | 1.24841 |
| Audit Timeliness (TIME) | 3.1978 | 1.52282 |
| Auditor Independence (INDEP) | 3.7722 | 1.26313 |
| Audit Feedback/Follow-up (FEED) | 3.6696 | 1.28743 |
| Stakeholder Engagement (STAK) | 3.5467 | 1.32692 |
| Operational Efficiency (PERF) | 3.6333 | 1.00717 |

*Source: Own survey data (2026)*

The descriptive results revealed notable differences across the seven domains (Table 12). Firstly, audit quality had the highest mean score (M = 3.8427, SD = 1.24841). This is an indication of strong focus on professional standards and evidence-based findings. Secondly, auditor independence had a high rating (M = 3.7722, SD = 1.26313), implying that independence is recognized as foundational for credibility. Audit feedback and follow-up had a moderate rating (M = 3.6696, SD = 1.28743), while audit scope and coverage received a mean of 3.5904 (SD = 1.32530). Stakeholder engagement had a mean of 3.5467 (SD = 1.32692).

Operational efficiency showed a mean of 3.6333 (SD = 1.00717) and recorded the least variance. This means that the perceived efficiency outcomes have more uniform experience than audit practices. Audit timeliness had the lowest mean score (M = 3.1978, SD = 1.52282), suggesting significant

challenges in completing audits on time and aligning them with project cycles. In sum, it can be noted that while audit quality and independence are perceived positively, timeliness remains a critical weakness. The difference in variation across audit practices (SD > 1.2 for all) compared to operational efficiency (SD = 1.007) indicates that while audit practices vary considerably across projects, their perceived impact on efficiency is more consistent.

## 4.4. Inferential Analysis

Inferential statistics enable the researcher to move beyond descriptive summaries and make generalizations about the broader population from the sample of 225 respondents. This section includes correlation testing, assumption diagnostics, and multiple regression analysis. While the descriptive analysis provided insights into patterns of audit practices and operational efficiency, inferential statistics allow for testing the strength, direction, and significance of relationships among these variables.

### 4.4.1. Correlation Test

In order to test whether there exists a relationship between external audit practices and operational efficiency, the Pearson product-moment correlation coefficient technique was used. The interpretation of correlation coefficients includes that values between 0.10–0.29 show a weak relationship; values from 0.30–0.49 show a moderate relationship; and those above 0.50 show a strong relationship (Field, 2005).

Table 13: Correlation Test Results

| | SCOP | QALT | TIME | INDEP | FEED | STAK | PERF |
|---|---|---|---|---|---|---|---|
| Audit Scope/Coverage | 1 | | | | | | |
| Audit Quality | .568** | 1 | | | | | |
| Audit Timeliness | .276** | .242** | 1 | | | | |
| Auditor Independence | .556** | .516** | .340** | 1 | | | |
| Audit Feedback/Follow-up | .413** | .507** | .470** | .450** | 1 | | |
| Stakeholder Engagement | .415** | .463** | .547** | .416** | .405** | 1 | |
| Operational Efficiency | .621** | .675** | .482** | .649** | .630** | .575** | 1 |

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

*Source: Own survey data (2026)*

The correlation analysis in Table 13 shows an especially high association between QALT and PERF ($r = .675$, $p < .01$). It is evident that higher audit quality is strongly associated with greater operational efficiency. Statistically, about 45.6% of the variance in operational efficiency can be attributed to audit quality. Conceptually, this means that audit quality not only contributes positively to operational efficiency independently but also serves as a foundation for other audit dimensions.

Similarly, INDEP demonstrates a strong correlation with PERF ($r = .649$, $p < .01$), followed by FEED ($r = .630$, $p < .01$), SCOP ($r = .621$, $p < .01$), STAK ($r = .575$, $p < .01$), and TIME ($r = .482$, $p < .01$). All correlations are statistically significant at the 0.01 level, confirming that all six audit dimensions are positively associated with operational efficiency.

The remaining audit practices were positively correlated with each other, with QALT and SCOP showing strong intercorrelation ($r = .568$), INDEP and SCOP ($r = .556$), and FEED and QALT ($r = .507$). These intercorrelations indicate that audit practices are mutually reinforcing—projects with strong performance on one dimension tend to perform well on others.

Overall, the obtained data demonstrate mutual reinforcement among all audit practices under analysis and their collective association with operational efficiency. The strong correlation between audit quality and performance represents a specific emphasis for Ethiopian donor-funded projects—development of audit quality is needed to increase operational efficiency.

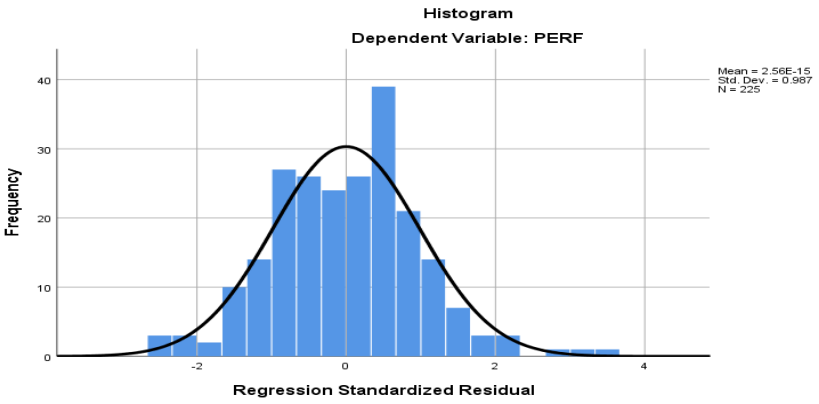
### 4.4.2. Assumptions for Regression Model Test

Prior to conducting regression analysis, the assumptions of ordinary least squares (OLS) regression - multicollinearity, linearity, homoscedasticity, and independence of residuals - were tested.

- **Normality Test**

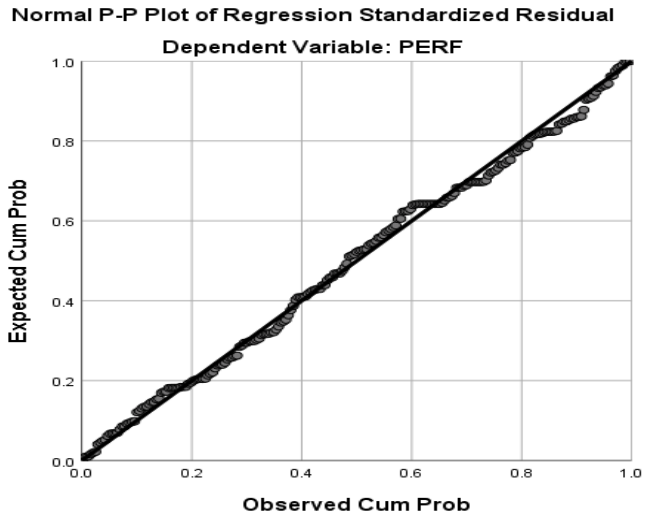
Before conducting parametric tests, the normality of the data distribution was assessed. The results on figure 2 show that the skewness and kurtosis values for all variables (SCOP, QALT, TIME, INDEP, FEED, STAK, PERF) fall within the acceptable threshold of ±2.0. This indicates that none of the constructs exhibit severe departures from normality. While some variables (e.g., TIME, STAK) show platykurtic tendencies (flatter distributions), these remain well within acceptable limits. Overall, the descriptive statistics confirm approximate normality across the dataset.

Figure 2. Histogram of regression standardized residuals




The histogram of regression standardized residuals for PERF shows a distribution centered around zero, with bars closely following the overlaid normal curve. The mean of residuals is essentially zero (2.56E-15), and the standard deviation (0.987) is close to 1, which is expected for standardized residuals. This visual evidence supports the conclusion that residuals are normally distributed, satisfying regression assumptions.

Figure 3 Normal P-P Plot




The Normal P-P Plot of regression standardized residuals for PERF shows data points closely aligned with the diagonal line representing expected cumulative probabilities. This alignment indicates that

observed residuals match the theoretical normal distribution, further confirming the normality assumption. Minor deviations at the tails are acceptable and do not undermine the overall fit.

More specifically, Table 12 presents the skewness and kurtosis statistics for all study variables.

Table 14: Normality Test Results

| Variable | N | Skewness | Std. Error | Kurtosis | Std. Error |
|---|---|---|---|---|---|
| Audit Scope/Coverage | 225 | -.710 | .162 | -.794 | .323 |
| Audit Quality | 225 | -.927 | .162 | -.177 | .323 |
| Audit Timeliness | 225 | -.202 | .162 | -1.440 | .323 |
| Auditor Independence | 225 | -.771 | .162 | -.490 | .323 |
| Audit Feedback/Follow-up | 225 | -.645 | .162 | -.821 | .323 |
| Stakeholder Engagement | 225 | -.460 | .162 | -1.076 | .323 |
| Operational Efficiency | 225 | -.581 | .162 | .184 | .323 |

*Source: Own survey data (2026)*

Referring to Table 14, the skewness values for all variables range from -0.927 to -0.202, with standard errors of 0.162. All skewness values fall within the acceptable range of -2 to +2, indicating that the data are approximately symmetric. Kurtosis values range from -1.440 to 0.184, also falling within the acceptable range of -2 to +2. This confirms that the data meet the normality assumption required for parametric statistical tests. In sum, both the statistical tests (skewness/kurtosis) and the visual diagnostics (histogram and P-P plot) consistently demonstrate that the data approximates normal distribution. This validates the use of parametric techniques such as correlation and regression in subsequent analyses. The dataset is robust enough to proceed with inferential analysis without the need for major transformations.

- **Multicollinearity Test**

Table 15: Collinearity Diagnostics

| Model | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| Audit Scope/Coverage | .570 | 1.755 |
| Audit Quality | .523 | 1.912 |
| Audit Timeliness | .604 | 1.655 |

| | | |
|---|---|---|
| Auditor Independence | .588 | 1.701 |
| Audit Feedback/Follow-up | .595 | 1.680 |
| Stakeholder Engagement | .569 | 1.757 |

*a. Dependent Variable: PERF*

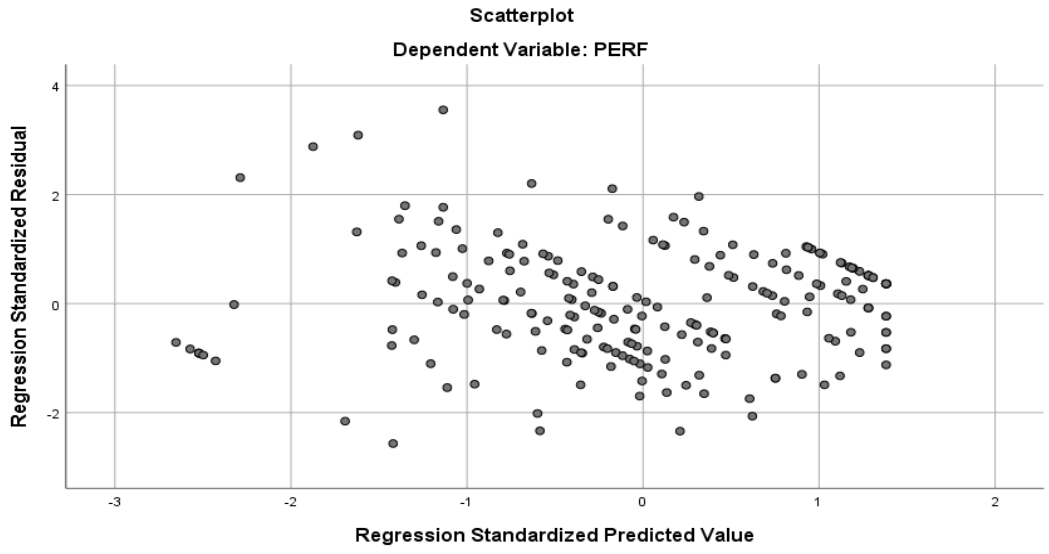
*Source: Own Survey, 2026*

The Variance Inflation Factor (VIF) values in Table 15 range from 1.655 to 1.912, while tolerance values range from 0.523 to 0.604. Since all VIF values are well below the conventional threshold of 10 (and even below the stricter threshold of 5), there is no evidence of problematic multicollinearity. This indicates that the six audit dimensions are sufficiently distinct to allow for reliable estimation of their individual effects on operational efficiency.

- **Linearity and Homoscedasticity Test**

Linearity and homoscedasticity were tested using visualization techniques and statistical tests. The analysis indicated that the linear regression model correctly reflects relationships between the six audit practices and operational efficiency. The scatter plot of standardized residuals on fitted values (Figure 1) shows residuals quite uniformly distributed across the horizontal axis, with no funnel shape. Visual inspection suggests that variance does not change depending on predicted values.

Figure 4. Scatter Plot for Linearity and Homoscedasticity Test




*(Source: SPSS Output, 2026)*

As supplementary evidence, the Breusch-Pagan test was carried out, yielding a non-significant result ($p > 0.05$), indicating no heteroscedasticity. The satisfaction of assumptions ensures the validity and efficiency of OLS estimators; standard errors are accurate, and consequently, t-tests and F-tests yield reliable outcomes.

### 4.4.3. Regression Analysis

Multiple regression analysis was employed to examine the extent to which external audit practices explain variance in operational efficiency and to determine the relative importance of each practice. This statistical technique not only quantifies the predictive power of the overall model but also establishes the significance of each independent variable in relation to the dependent variable (Pallant, 2005).

In this study, a multiple linear regression was conducted with operational efficiency as the dependent variable and six audit practices - scope/coverage, quality, timeliness, independence, feedback/follow-up, and stakeholder engagement - as the independent variables. The regression output included the model summary, the ANOVA test, and the regression coefficients.

Table 16: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .836a | .699 | .691 | .55982 |

*a. Predictors: (Constant), STAK, FEED, SCOP, TIME, INDEP, QALT*

*Source: Own Survey, 2026*

Table 16 illustrates the model summary. The results show that the multiple correlation coefficient (R) is 0.836, indicating that overall external audit practices have a strong positive relationship with operational efficiency. R Squared ($R^2 = .699$) shows that external audit practices explain 69.9% of the variance in operational efficiency, implying that operational efficiency can be predicted from the combination of audit scope/coverage, quality, timeliness, independence, feedback/follow-up, and stakeholder engagement. The remaining 30.1% of the variance is explained by other factors not included in this study.

Compared to the variance of the model (R-squared), adjusted R-square (0.691) is slightly lower, accounting for the number of predictors in the model. This indicates that the model is not overfitted

and that the six predictors collectively provide a reliable explanation of operational efficiency variance.

Table 17: ANOVA Test

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 158.900 | 6 | 26.483 | 84.503 | .000^b^ |
| | Residual | 68.322 | 218 | .313 | | |
| | Total | 227.222 | 224 | | | |

a. *Dependent Variable: PERF*

b. *b. Predictors: (Constant), STAK, FEED, SCOP, TIME, INDEP, QALT*

*Source: Own Survey, 2026*

From Table 17, the results of the ANOVA show that the regression model is statistically significant. This is evident from the high F-statistic value of 84.503 at $p < .001$. It shows that the variation in operational efficiency attributed to the six audit practices cannot be due to chance. As such, the regression sum of squares (158.900) constitutes a large portion of the total sum of squares (227.222), while the residual sum of squares (68.322) is relatively lower. Consequently, the predictors account for most of the variation in operational efficiency.

The statistical significance of the ANOVA test means that the model is reliable and valid. Therefore, the external audit practices - scope/coverage, quality, timeliness, independence, feedback/follow-up, and stakeholder engagement - jointly influence operational efficiency.

Table 18: Coefficients (External Audit Practices on Operational Efficiency)

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .445 | .147 | | 3.036 | .003 |
| Audit Scope/Coverage | .127 | .037 | .167 | 3.400 | .001 |
| Audit Quality | .212 | .041 | .262 | 5.111 | .000 |
| Audit Timeliness | .079 | .032 | .120 | 2.507 | .013 |
| Auditor Independence | .181 | .039 | .226 | 4.676 | .000 |

| | | | | | |
|---|---|---|---|---|---|
| Audit Feedback/Follow-up | .167 | .038 | .214 | 4.440 | .000 |
| Stakeholder Engagement | .104 | .037 | .137 | 2.791 | .006 |

*a. Dependent Variable: PERF*

*Source: Own Survey, 2026*

As can be seen from Table 18, the regression analysis illustrates the contribution of different external audit practices to operational efficiency. Overall, all six predictors have a statistically significant influence on operational efficiency ($p < 0.05$).

In particular, audit quality proved to be the strongest predictor in the set ($\beta = .262$, $p < .001$). This finding is especially valuable for the study because of the importance of high-quality audits in providing reliable findings that stakeholders can trust and act upon. Auditor independence comes second ($\beta = .226$, $p < .001$). In fact, it is this practice that allows auditors to report findings objectively without bias or influence, serving as a cornerstone of audit credibility. Audit feedback and follow-up rank third ($\beta = .214$, $p < .001$), indicating that acting on audit recommendations is critical for translating audit insights into efficiency gains.

Audit scope and coverage have proved to contribute significantly ($\beta = .167$, $p = .001$) to operational efficiency, supporting the proposition that comprehensive audit coverage across financial, procurement, and implementation domains enhances efficiency outcomes. Stakeholder engagement also proves to make a statistically significant difference ($\beta = .137$, $p = .006$). Audit timeliness ($\beta = .120$, $p = .013$) has shown itself to be a comparatively weaker but still significant predictor. Nevertheless, it does affect operational efficiency. This suggests that although timely audits help prevent delays, timeliness issues in Ethiopian donor-funded projects limit this dimension's potential impact.

Thus, according to the findings, operational efficiency depends mostly on two practices: audit quality and auditor independence. However, feedback/follow-up and scope/coverage are also important for this purpose. Timeliness and stakeholder engagement have shown themselves to be relevant but secondary factors. From a manager's standpoint, this hierarchy of influences should guide future actions toward improving audit processes.

In terms of the unstandardized coefficients, the model expression is represented as:

**PERF = 0.445 + 0.127(SCOP) + 0.212(QALT) + 0.079(TIME) + 0.181(INDEP) + 0.167(FEED) + 0.104(STAK)**

Based on the regression analyses, all six objectives of the study were addressed. The test results of the proposed hypotheses are summarized as follows, table 19:

Table 19: Summary of the Proposed Hypotheses

| Code - Alternative Hypothesis | Significance | Decision |
|---|---|---|
| H1: Comprehensive audit scope and coverage positively affect operational efficiency | β = .167, p = .001 | Supported |
| H2: Higher external audit quality positively influences operational efficiency | β = .262, p < .001 | Supported |
| H3: Timely external audit execution and reporting positively influences operational efficiency | β = .120, p = .013 | Supported |
| H4: Greater external auditor independence positively influences operational efficiency | β = .226, p < .001 | Supported |
| H5: Stronger audit follow-up mechanisms positively influence operational efficiency | β = .214, p < .001 | Supported |
| H6: Stronger stakeholder engagement in external audit processes positively influences operational efficiency | β = .137, p = .006 | Supported |

## 4.5. Discussion of the Findings

This section evaluates and interprets the findings in the context of examining the impact of external audit practices on the operational efficiency of donor-funded development projects in Ethiopia. Specifically, the findings revealed that audit scope and coverage had a moderate effect (B = .127, β = .167) on operational efficiency. Comprehensive audit coverage that extends to procurement processes, implementation activities, and compliance with donor requirements enables project managers to identify and correct inefficiencies. In line with this finding, Sonola (2025) demonstrated that comprehensive assessments reviewing governance frameworks, strategy, and resource management generate findings that contribute to improved efficiency and effectiveness. Similarly, Ataribanam

(2024) indicated that comprehensive control coverage yields stronger accountability outcomes in Ghanaian public institutions.

Audit quality exhibited the strongest effect (B = .212, β = .262) on operational efficiency. Quality dimensions including competence, methodological rigor, and professional skepticism determine whether audits generate valuable improvement recommendations. This finding aligns with Nuhić Mešković (2025), who found that audit quality variations affect organizational outcomes, and with Harymawan and Putri (2025), who demonstrated that audit quality influences audit efficiency. The strong effect of audit quality underscores that merely conducting audits is insufficient—they must be conducted to high professional standards to generate efficiency gains.

Audit timeliness showed a relatively weaker but still significant effect (B = .079, β = .120) on operational efficiency. Harymawan and Putri (2025) found that strong internal audit functions significantly reduced audit report lag, demonstrating that audit timeliness is influenced by organizational factors. The weaker effect in this study may reflect the significant timeliness challenges identified in descriptive analysis (mean = 3.20), suggesting that delayed audits reduce their potential impact on project implementation.

Auditor independence had a strong effect (B = .181, β = .226) on operational efficiency. The finding that apparent autonomy of external controls enhances efficacy aligns with Ataribanam (2024), who concluded that independence enhances accountability outcomes. When stakeholders perceive auditors as independent, they are more likely to act on audit findings; when independence is questioned, audit impact diminishes regardless of technical quality.

Audit feedback and follow-up demonstrated a strong effect (B = .167, β = .214) on operational efficiency. Effective follow-up bridges audit findings and operational improvement, determining whether audit insights translate into changed practices. INTOSAI (2019) emphasizes that recommendations require follow-up to generate value. The strong effect of follow-up indicates that even high-quality audits produce limited efficiency gains if recommendations are not implemented.

Stakeholder engagement showed a moderate but significant effect (B = .104, β = .137) on operational efficiency. Sonola (2025) highlighted that surveying and interviewing various stakeholders provides multiple perspectives that identify gaps and inform improvement opportunities. The finding that stakeholder engagement enhances compliance with audit recommendations aligns with the

stewardship theory perspective, which views audits as opportunities for mutual learning and performance improvement.

Generally speaking, the current results provide an answer to the research gap mentioned earlier by producing statistically validated results related to donor-funded development projects in Ethiopia. Thus, agency and stewardship theories are expanded in relation to a low-income country context. Overall, it is clear that the current findings highlight the necessity of implementing effective external audit practices to achieve operational efficiency. The selected donor-funded projects provide a case in point.

# CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter synthesizes the findings derived from the descriptive analysis and the inferential CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS This chapter consolidates the findings based on the descriptive analysis and the inferential analysis of data collected from the sample of interest. Considering the findings and the insights obtained from the findings presented above, emphasis is placed on the significance and importance of external audit practices in determining the level of operational efficiency. While providing insights into the managerial and theoretical implications of such findings, the current chapter also presents recommendations that can be used to improve the impact of external auditing in realizing operational efficiency. The chapter is organized in an outline format consisting of summaries of the main findings, followed by conclusions, and recommendations.

## 5.1. Summary of Major Findings

The consolidation of the findings in this research involved descriptive statistics and inferential statistics aimed at assessing the extent to which external audit practices contribute to operational efficiency in donor-funded development projects in Ethiopia. The following is the summary of the findings made in this study.

Specific Objective 1 – The Effect of Audit Scope/Coverage on Operational Efficiency

- Audit scope and coverage practices were perceived as highly significant (grand mean of 3.59). The importance of compliance with donor requirements (M = 4.24) was rated higher than comprehensive audit coverage (M = 2.96).
- There was a significant positive correlation between audit scope/coverage and operational efficiency ($r = .621$, $p < .01$). Significant regression effect existed ($\beta = .167$, $p = .001$). Comprehensive audit coverage is one of the important foundational audit practices in assessing operational efficiency.

Specific Objective 2 – The Effect of Audit Quality on Operational Efficiency

- Audit quality received high importance ratings with a grand mean score of 3.84. Adherence to international standards (M = 4.21) and reliability of findings (M = 4.14) are important attributes of audit quality, while clarity of conclusions (M = 3.44) was least significant.

- Auditing practices that promote audit quality had a highly significant positive correlation with operational efficiency ($r = .675$, $p < .01$). The regression effect of quality audit practices was the highest of all ($\beta = .262$, $p < .001$). Practices that promote audit quality are very important since they determine reliability.

Specific Objective 3 – The Effect of Audit Timeliness on Operational Efficiency

- Low ratings were recorded for timeliness audit practices with a grand mean of 3.20. Perceived benefit of helping in preventing delays was rated higher ($M = 3.60$) while coordination of audit schedules with project implementation cycles ($M = 2.74$) had low ratings.
- Positive significant correlation existed between audit timeliness and operational efficiency ($r = .482$, $p < .01$). The regression effect of audit timeliness was the least ($\beta = .120$, $p = .013$). There are challenges with respect to timeliness audit practices.

Specific Objective 4 – The Effect of Auditor Independence on Operational Efficiency

- High importance ratings were recorded for independent audit practices with a grand mean of 3.77. Perceived benefit of enhancing audit credibility ($M = 4.22$) was rated higher while maintaining independence ($M = 3.41$) was moderately rated.
- Positive significant correlation existed between auditor independence and operational efficiency ($r = .649$, $p < .01$). The second highest regression effect was observed for audit independence practices ($\beta = .226$, $p < .001$). Auditor independence is recognized as an important foundational audit practice.

Specific Objective 5 – The Effect of Audit Feedback/Follow-up on Operational Efficiency

- Moderate importance ratings (grand mean of 3.67) were reported for feedback and follow-up audit practices. Contribution to continuous improvement ($M = 4.15$) and enhancement of controls ($M = 4.04$) were highly rated while follow-up mechanisms ($M = 3.01$) promoting action were not important.
- Significant positive correlation existed between feedback/follow-up audit practices and operational efficiency ($r = .630$, $p < .01$). Third highest regression effect existed for audit feedback and follow up practices ($\beta = .214$, $p < .001$). Though audits provide important recommendations, their follow-ups are weak.

Specific Objective 6 – The Effect of Stakeholder Engagement on Operational Efficiency

- Moderate importance ratings (grand mean of 3.55) were found for stakeholder engagement practices. Consultation of project managers during audit (M = 3.93) and compliance enhancement (M = 3.88) were rated higher compared to engagement in audit planning (M = 3.02).
- Strong positive correlation existed between stakeholder engagement practices and operational efficiency ($r = .575$, $p < .01$). Significant regression effect existed ($\beta = .137$, $p = .006$). Consultations of project managers exist during audit practice. Engagement in audit planning phases is weak.

Generally, the combination of the six audit practices contributed to explain 69.9% of variance in operational efficiency ($R^2 = .699$, adjusted $R^2 = .691$, $F(6,218) = 84.503$, $p < .001$). The audit practices that explained the variance include audit quality and auditor independence. Other significant practices include audit timeliness and stakeholder engagement.

## 5.1. Conclusion

While external audit may often appear as compliance with regulatory requirements, in reality, it is a much more strategic tool for increasing operational efficiency of donor-funded development projects. In developing countries, such as Ethiopia, where donor funding represents a considerable proportion of the government budget, efficient external auditing becomes indispensable for resource allocation and achievement of development outcomes. Thus, operational efficiency arises not as a result of one type of audit practices, but as a result of a combination of several types of practices, which together represent more than sixty-five percent of all efficiency variances: audit quality, auditor independence, feedback/follow-up, audit scope/coverage, stakeholder engagement, and audit timeliness.

Among all investigated mechanisms, the researchers found that audit quality was the most important factor, implying professionalism and high competencies needed for the production of reliable results. Auditor independence became the second most important mechanism due to the central position of this mechanism in guaranteeing objectivity of audit findings. Therefore, it can be stated that quality and independence have more weight when it comes to efficiency outcomes. Feedback and follow-up had the third highest effect, meaning that audit findings should be followed up on for efficiency increase. Moderate effects were obtained in case of audit scope and coverage. Weaker effects of stakeholder engagement and timeliness were nevertheless statistically significant.

The theoretical implications of the study are connected with confirmation of the value of applying the two complementary theories – agency theory and stewardship theory – in the framework of a low-income country. Independence and quality confirm agency theory because they imply the application of control mechanisms, whereas feedback and stakeholder engagement are associated with learning and collaboration as per the stewardship theory. Thus, it becomes evident that operational efficiency depends on the application of control mechanisms as well as trust-based mechanisms in audits.

As far as practical implications are concerned, the study allows diagnosing problems within the field under consideration and finding priorities. The results allow putting quality first, then independence, then follow-up, giving direction for capacity-building efforts. Thus, the findings of this study suggest that operational efficiency of donor-funded projects in Ethiopia depends positively on audit quality, independence, follow-up mechanisms, extensive scope and coverage, stakeholder engagement, and timeliness. Conducting research on the topic within the framework of the Ethiopian donor-funded project setting, this paper makes a valuable contribution to public financial management literature.

### 5.2. Recommendations

Based on the results received during this study, the following recommendations regarding improvement of external audit practices in donor-funded development projects will be given, as they positively affect the efficiency of operation in such projects. Indeed, all the practices mentioned above were proved to positively affect operational efficiency in a donor-funded project. Yet, the degree of impact differs among the listed practices. Hence, the recommendations concerning improving specific audit practices in donor-funded projects are listed below.

- Improvement of audit quality: As mentioned, the first strongest predictor of operational efficiency is audit quality. The improvement of audit quality can be reached through ensuring that the external audit firm has demonstrated proficiency in audit of the development sector projects. Moreover, the Office of the Federal Auditor General and the development partners should develop quality assurance measures to ensure periodic external evaluation of audit quality of firms providing audit services for donor-funded projects. Project managers and audit committees should guarantee that auditors are properly qualified and experienced before engaging them.
- Strengthening of auditor independence: As noted above, the second strongest predictor of operational efficiency is auditor independence. In order to improve auditor independence, donor-funded projects should introduce restrictions on provision of non-audit services by external audit

firm for audited entity. Additionally, the introduction of audit firm rotation should be considered to avoid any potential independence threat resulting from too close relations between the auditor and auditee. Furthermore, donors should require audit firm's confirmation of independence and disclosure of all independence threats on an annual basis.

- Enhancing audit feedback and follow-up: As seen from the results above, audit feedback and follow-up are the third most significant predictors of operational efficiency, it is critical to prioritize the strengthening of these processes. Leadership within implementing entities must demonstrate reinforced institutional commitment to ensure that audit recommendations are not merely recorded but actively integrated into management practices. To improve operational outcomes, heads of entities should ensure that established follow-up mechanisms are rigorously applied, creating a continuous loop of verification that ensures remedial action plans are executed in a timely and systematic manner.
- Broadening audit scope and coverage: The audit scope and coverage turned out to be one of the important predictors of operational efficiency. To broaden the audit scope and coverage, the external audit should cover not only financial compliance of the audited project, but also the project's procurement process, implementation activity, program performance or performance auditing. Moreover, the scope of audit should involve auditing of field offices of the project rather than just headquarters. Finally, the temporal scope of audit should be in line with project cycle and allow performing concurrent audit.
- Improving stakeholder involvement: Another predictor of operational efficiency is the stakeholder involvement in the audit process. To improve stakeholder involvement, it is necessary for the auditor to discuss audit plan with project manager, donor, and finance officers in the beginning of the audit and obtain information about any concerns from these stakeholders. During audit fieldwork, the auditor should meet with representatives of various groups of stakeholders, including field office staff and, if relevant, representatives of beneficiary communities. Then the auditor should validate findings with stakeholders and submit the report to all involved parties and relevant donor agency. Moreover, audit report feedback should be provided for all stakeholders.

- Improving audit timeliness: Audit timeliness proved to be the least influential predictor of operational efficiency. However, it is still important since timeliness-related issues were revealed during descriptive part of the research. Hence, to improve timeliness of the audit, the timing should be adjusted to project cycle and be performed during implementation rather than after completion. The donor agency should ensure that the audit report approval process is fast enough. Finally, implementing agencies should ensure that financial records and other documents needed for audit are ready for use when the auditor arrives.

**Recommendations for Specific Stakeholders**

- For Donors: Donors should strengthen audit follow-up mechanisms for funded projects. As practiced by some donors, the release of subsequent funding tranches may be made conditional upon the satisfactory implementation of key audit recommendations. Implementing entities should be required to provide evidence of corrective actions taken to address previously identified audit findings and recommendations before receiving additional funds.
- For Implementing Agencies: It is recommended for the project manager to approach the audit as an opportunity for improving and learning, not as a threat. Hence, the investment in audit preparation and subsequent implementation of recommendations is needed. Corrective action plans for each recommendation should be developed as soon as possible after receiving the report.
- For the Office of the Federal Auditor General and Regulatory Bodies: Regulatory bodies should focus on improving quality assurance mechanisms of audit firms performing audit of development sector projects. Guidance regarding maintaining auditor independence should also be created. Capacity building of local audit firms can be done for development sector projects.
- For the Ministry of Finance: Ministry of Finance should guarantee that the IFMIS/IBEX system provides audit trail feature. The integration of audit recommendation tracking system with the public financial management information system can be considered as well.

### Limitations of the Study

Some limitations exist in this research that negatively impact validity of its findings and depth of insights provided by it. First of all, the study is limited to donor-funded projects in Addis Ababa and national flagship programs, which makes a comparison of audit practices and operational efficiency between these projects and those funded by donors in other parts of Ethiopia necessary. Secondly, although six audit dimensions were examined in this study, the factors such as auditor tenure, audit fees, regulatory and political environment, which may moderate the audit-efficiency relationship, were not. Thus, no comprehensive overview of the problem was provided. Thirdly, the use of a single source and cross-sectional study design creates a possibility of common method bias, yet the Harman's single factor test (results not shown) proves this problem to be irrelevant to this study. Finally, the absence of qualitative and longitudinal data prevents obtaining of qualitative information from stakeholders or tracking changes in audit impact over time.

### Future Research Directions

It may be helpful to enlarge the scope of future research by focusing on projects that receive donor funding not only concentrated in Federal level, but also in other parts of Ethiopia for comparison purpose. Also, the inclusion of objective measures such as completion rate, budget variance, and rate of audit recommendation implementation, along with perceptual indicators, can contribute to increased validity and comprehensiveness of findings.

From the methodological perspective, the employment of mixed methods research design, implying collecting both quantitative data using surveys and qualitative data using interviews with relevant stakeholders, such as auditors, project managers, donor agency representatives, and beneficiaries, is likely to produce better outcomes. Additionally, the longitudinal research design can be applied in order to observe the evolution of audit impact.

In addition, it may be useful to investigate the role of emerging audit practices in improving audit effectiveness and operational efficiency in development context. Such audit practices can include continuous audit, data analytics, and blockchain. Further research on comparison of audit impacts in Sub-Saharan Africa countries can shed light on institutional factors that moderate audit-efficiency relationship. Cost-benefit analysis of external audits in relation to achieving operational efficiency is necessary for policy-making purpose.

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# Appendices

Appendix – I Survey Questionnaire

## EXTERNAL AUDITS AND OPERATIONAL EFFICIENCY OF DONOR-FUNDED DEVELOPMENT PROJECTS IN ETHIOPIA

Dear Respondent,

I am conducting this survey as part of my Master's thesis at Addis Ababa University, College of Business and Economics. The purpose of the study is to assess the impact of external audits on the operational efficiency of donor-funded development projects in Ethiopia. Specifically, the research seeks to understand how audit practices—such as scope, quality, timeliness, independence, follow-up mechanisms, and stakeholder engagement—affect project performance in terms of timeliness, cost-effectiveness, accountability, and resource utilization.

Your participation is highly valuable, as it will provide insights into the practical realities of audit processes and their influence on project outcomes. The findings will contribute to academic knowledge and offer practical recommendations for policymakers, donors, and implementing agencies. Participation in this survey is entirely voluntary. All responses will be treated with strict confidentiality and used solely for academic purposes. No individual respondent or organization will be identified in the final report. The survey will take approximately 15–20 minutes to complete, and there are no right or wrong answers—only your honest perspectives and experiences matter.

Your input will help ensure that donor-funded projects in Ethiopia are managed more efficiently and deliver maximum benefits to communities.

Thank you very much for your time and contribution.

Sincerely,

**Fikade Teferi**

Graduate Student, Addis Ababa University

Mob: 0913 24 64 82

e-mail: fteferi28@gmail.com

**General Information**

Your Participation is Voluntary.

Do not write your name on the Questionnaire.

**I. Demographic Profile of Respondents**

Direction: The following statements are about your personal information. Please write the necessary information on the blank space provided and, in the optional items, indicate your answer by putting a tick mark (x) in the box.

1. Gender: ☐ Male ☐ Female

2. Age: ☐ 20–29 ☐ 30–39 ☐ 40–49 ☐ 50+

3. Education Level: ☐ Diploma ☐ Bachelor ☐ Master ☐ PhD

4. Sector/ Organization: ☐ Government ☐ Donor ☐ NGO / Partner ☐ Audit/Oversight Body ☐ Others, please specify_____

5. Program Area (tick the primary program your project relates to)

☐ Urban infrastructure ☐ Education ☐ Health
☐ Social protection ☐ Governance ☐ Housing
☐ Climate / Environment ☐ Community development

6. Role in Donor-Funded Projects:

☐ Project planning ☐ Auditor ☐ Coordinator
☐ Financial manager ☐ Operation manager

7. Years of Experience in Donor-Funded Projects:

☐ <5 ☐ 5–10 ☐ 11–15 ☐ 16+

**Part II. Study Questions related to External Audit Practices**

Please read each statement carefully and show your level of agreement on the statements by putting the "X" mark in the boxes using the following Key:

| **Strongly Disagree (1)** | **Disagree (2)** | **Neutral (3)** | **Agree (4)** | **Strongly Agree (5)** |
|---|---|---|---|---|

| Aspect | Statement | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|---|
| **Audit Scope/ Coverage** | External audits in my organization cover all major financial transactions. | | | | | |
| | Audit scope includes procurement processes and contract management. | | | | | |
| | Audit coverage extends to project implementation activities. | | | | | |
| | External audits examine compliance with donor requirements. | | | | | |
| | Audit scope addresses both financial and operational aspects. | | | | | |
| | External audits provide comprehensive coverage across reporting periods. | | | | | |
| **Audit Quality** | External audits are conducted by competent and qualified professionals. | | | | | |
| | Audit procedures follow recognized international standards. | | | | | |
| | Audit findings are reliable and evidence-based. | | | | | |
| | External audits demonstrate rigor in testing financial records. | | | | | |
| | Audit reports provide clear and accurate conclusions. | | | | | |

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| **Audit Timeliness** | External audits are completed within agreed timelines. | | | | | |
| | Audit reports are delivered promptly for decision-making. | | | | | |
| | Timely audits help prevent delays in project implementation. | | | | | |
| | Audit schedules align with project cycles. | | | | | |
| **Auditor Independence** | External auditors operate free from organizational influence. | | | | | |
| | Audit findings are reported objectively without bias. | | | | | |
| | External auditors maintain autonomy in their assessments. | | | | | |
| | Independence of auditors enhances credibility of audit results. | | | | | |
| **Feedback / Follow-up** | Audit recommendations are communicated clearly to management. | | | | | |
| | My organization implements corrective actions based on audit findings. | | | | | |
| | Follow-up mechanisms ensure recommendations are acted upon. | | | | | |
| | External audits contribute to continuous improvement. | | | | | |
| | Audit feedback enhances accountability in project operations. | | | | | |
| | Recommendations from audits strengthen financial and operational controls. | | | | | |
| **Stakeholder Engagement** | Stakeholders are engaged during audit planning. | | | | | |
| | Donors participate in discussions of audit findings. | | | | | |

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| | Project managers are consulted during audit processes. | | | | | |
| | Stakeholder involvement improves responsiveness to audit results. | | | | | |
| | Engagement of stakeholders enhances compliance with audit recommendations. | | | | | |

**Part II. Study Questions related to Operational Efficiency**

Please read each statement carefully and show your level of agreement on the statements by putting the "X" mark in the boxes using the following Key:

| **Strongly Disagree (1)** | **Disagree (2)** | **Neutral (3)** | **Agree (4)** | **Strongly Agree (5)** |
|---|---|---|---|---|

| Aspect | Statement | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|---|
| **Operational Performance** | External audits improve timeliness of project implementation. | | | | | |
| | Audit practices enhance cost-effectiveness of project operations. | | | | | |
| | External audits strengthen accountability in resource utilization. | | | | | |
| | Audit findings help reduce wastage of project resources. | | | | | |
| | External audits improve transparency in project management. | | | | | |
| | Audit recommendations contribute to sustainable efficiency gains. | | | | | |