Effectiveness of Auditing in Public Organizations: The Case of Ministry of Environment and Tourism, Khomas Region, Namibia

Rajesh ARORA *vc@apexuniversity.edu.in*
Vice Chancellor, Apex University
Arunachal Pradesh, 791102, India

Abraham Pendapala ASHIPALA *abrahampendapala@gmail.com*
Student, Business Administration Faculty
International University of Management
Windhoek, 9000, Namibia

Martin Mabeifam UJAKPA *ujakpamabeifam@gmail.com*
Senior Lecturer and Faculty Dean
Information and Communication Technology Faculty
International University of Management
Windhoek, 9000, Namibia

Parcidio ANDRÉ *parcidioandre@gmail.com*
Student, Information and Communication Technology Faculty
International University of Management
Windhoek, 9000, Namibia

Iyaloo NDEVAHOMA *iyaloondevahoma7@gmail.com*
Student, Information and Communication Technology Faculty
International University of Management
Windhoek, 9000, Namibia

Jacob DAPILAH *jacobdapilah@gmail.com*
Lecturer, Faculty of IT Business
Ghana Communication Technology University
Takoradi Campus, Ghana

Abstract

Public sector auditing strengthens public governance by providing responsible governance in institutions, protecting core values of the public sector entities, ensuring managers and officials conduct public business transparently, fairly, and honestly, as well as with equity and integrity. Notwithstanding this role of auditing in organizations, it seems that some organization, have failed to deliver on the purposes for which they were established and this could be as a result of irresponsible and ineffective management of public resources. Considering this and the little available published literature on the effectiveness of auditing in public organizations in Namibia, this study examined the effectiveness of auditing in public organizations in Namibia. Using a quantitative method to collect and analyze data from 21 participants in the Ministry of Environment & Tourism (Khomas Region), the study found that internal auditing function is not fully independent due to the absence of an audit committee. The study also established that an organizations independence, sufficient funding, and unrestricted access are critical measures to ensure effectiveness of auditing. Also competent staffs, formal mandate, professional audit standards, competent leadership, stakeholders support and objective staffs are important elements that ensure that audit functions aid public sector entities to achieve their objectives. It is recommended that the State Finance Act 31 (1991) be amended to make provision in the current reporting structures of the ministries, to include audit committees. Furthermore, regulations and policy framework to guide the establishment of audit committees should be formulated. Since this study focused only on one ministry, generalization of the study results should be done with caution. Future studies should include more public organizations and if possible, attempt to compare auditing in public and private sectors.

Keywords: Audit, Public Sector Organization, Effectiveness, Audit Scope.

1. INTRODUCTION

Auditing is the foundation of good public sector governance. It is the collection and evaluation of evidence, to form an opinion about an organization, by competent independent individuals, and communication of the opinion to the interested entity through audit report(s) [1][2]. By providing unbiased objective assessments of the responsible and effective management of public resources, auditors help public organizations achieve accountability, integrity, improve operations, instill confidence and transparency through compliance with regularity, proprietary, and accounting requirements [3][4].

Financial control over public money originated since ancient times, as a result of expansion of the activities of State and Government and the increase in the volume of public resources with the development and function of states from the clipboard on the security and administration of justice to intervene in various aspects of economic activity, and this requires more effective oversight to ensure the maintenance of public money [29]. Over the past decade, the control of public resources and funds seems to have gained significant attention, due to global economic crises. This has caused public organizations to reconsider their methods of controlling and managing risk [5]. For developing countries like Namibia, the public sector plays a vital role in the growth of the country's economy and this therefore implies the need for a robust system of checks and balances in place to provide assurances that government funds are used for their intended purposes. The said checks and balances are often achieved through internal and external auditing as both are likely to influence an organization's risk management functions in order to enhance its performance.

Furthermore, auditing assists public sector entities to achieve their objectives effectively, economically, and ethically [2]. According to [5][6], auditing provides independent assurances that all risk has been identified, controls are in place to mitigate the identified and potential risks, and that all opportunities are identified, assessed and effectively managed. As a result, when auditing is carried out ineffectively, it may lead to deception. Considering the importance of auditing, its application in the public sector and the possibility of its effectiveness and consequences, this study investigated the effectiveness of auditing in public organizations, in Namibia, to control and manage risk, using the Ministry of Environment and Tourism office in Khomas Region as a case study. To achieve this goal, the research identified the role of auditing in public organizations, established auditing independence in public organizations and ascertained the effectiveness of audit committees in public sector organizations.

2. REVIEW OF THE LITERATURE

2.1 Effectiveness of Auditing

Effectiveness of auditing is referred to as the extent to which obtained results are consistent as per the desired predefined conditions [7]. [8] Perceives effective auditing as the degree to which established objectives are achieved during the process of auditing. [8] Explains further that the effectiveness of an audit is only assessed if no underlying issues are revealed in other audits performed afterwards. According to [7], to improve the effectiveness of auditing, auditors utilize nonfinancial measures, such as employee headcount and production space, which may be found in the annual report. Furthermore [9] indicated that the audit function is rooted in the confidence that society places on the effectiveness of the audit, and in the opinion of an auditor. Therefore, the confidence in auditing is a condition for its existence and function, and hence when betrayed, it loses its functionality or is destroyed [9]. This study delved into the context of Namibia on the auditing function to ascertain if it held true towards effective auditing.

2.2 Theories of Auditing

A number of auditing theories exist and amongst them is the policeman theory [10] [11] [12], lending credibility theory,[9] [13] [14], agency theory [15] and the fraud triangle audit approaches [7] [16]. According to the policeman theory, the auditor acts as a policeman and is responsible for the arithmetical accuracy, searching, discovery, and prevention of fraud [11] [12]. In conformance to the policeman theory, the lending credibility theory focuses on the credibility of financial statements and the reduction of information-asymmetry [14]. The theory stipulates that, it is the responsibility of an auditor to add to the veracity of financial statements [11] [12]. Being able to add veracity to financial statement(s) may require one to have sufficient knowledge of the company being audited and it's accounting systems, as a result, [17] pointed out that, public sector auditors should have adequate knowledge of the company they auditing and its accounting system, as well as being aware of high-risk audit areas for fraud within the company.

Both the policeman theory and the lending credibility theory seem to suggest that, auditors in public entities should always strive to meet public expectations [11] [12]. To meet the said expectation, [11] [12] [18] [19] suggested the need for auditors to be independence ad also have top management support as the two among others, make them more effective. The work of [20] discussed theoretical grounding of the audit function independence and getting support from management. According to [21], the agency theory contextualizes the independence and responsibility of the audit function (internal and external) and hence the theory expounds as such. The independence of the audit function and top management support is even more eminent as it enables auditors to produce report (s) that serve as feedback to companies and further serve as training document(s) especially for fraud detection [17]. For this purpose, organizations should strive to ensure that, auditors are not under pressure to complete their audit function especially within unrealistic time limits and that management do not restrict the audit scope for auditors [17]. To [21], the control function of auditing performed by internal audit, leads to better firm performance and hence internal auditing should be encouraged.

A company is viewed as a web of contracts formed by contributing groups (suppliers, bankers, customers, employees, auditors, management, etc.) and in this regard, the task of management is to coordinate the groups and optimize those [9] [11] [12] [14]: as such, auditors are usually assigned to companies to act in an honest, reliably, good faith and in the public interest of these groups. According to [10] [11] [12], the fraud triangle audit approaches expounded further the view on companies as a web of contracts formed by contributing groups and as a result, the fraud triangle audit approaches indicates that, fraud is more likely to result from a combination of three factors, motivation, opportunity, and rationalization.

In order words, [10] [11] [12] pointed out that the fraud triangle audit approach is indicative that, motivation stems from either greed or need. The study of [22] found that greed was the main cause of fraud. In terms of opportunity, [22] explained that, fraud is more likely in companies where there are weak internal control systems, poor security over company property, little fear of exposure and likelihood of detection, or unclear policies on acceptable behavior. As a result, fraudulent actions by some persons in some companies are seen as necessary, especially when the victim is large enough to absorb the impact or when justified that the victim deserved it [22].

2.2 Types of Auditing and Its Associated Tools

Researchers [1] [23] have established two types of auditing: external and internal. External audit is conducted by an independent external auditor, who is not connected to the organization. This type of audit is usually conducted to fulfill the requirements of the provisions of law [1]. External audit of central government departments are undertaken by the office of the Auditor General with the mission of providing independent audit assurance in accordance with international auditing standards to stakeholders. The auditors need to have access to information which they deem necessary for examination and investigation [24]. As part of any national economy, the public sector is discharged with responsibility of providing government services and as a result, external auditors function in the public sector supports the government responsibilities of stamping out public corruption by assessing public programs, policies, operations, and results, and identifying trends and emerging challenges [25].

Unlike the external audit, internal audit is conducted by an assigned staff, from within the organization [1]. Internal audit thorough examines an organization’s accounting transactions as well as the system to/through which the transactions conducted and recorded. Internal audit is usually undertaken to verify the accuracy and authenticity of the financial accounting and statistical records presented to the management [1].

According to [23], public organizations are expected to manage their affairs in accordance with public service ethics (accountability, integrity, transparency, confidentiality, professionalism, independence, and objectivity). To this effect, public sector organizations have audit committee, which comprise of members of a company's board of directors, whose see to it that auditors remain independent of management [1]. The committee serves as a communication channel between internal and external auditors and ensures that their combined approaches, addresses all the significant risks within an organization [25]. Financial statements by law are required to give a true and fair view of the state of affairs of an organization and should be presented, during auditing, in accordance to the International Financial Reporting Standards (IFRS) [23]. The study probed into the Namibian context on audit committees and financial statements to ascertain the effectiveness of public sector auditing.

According to [26], users of financial statements, look to the independent auditor’s report for assurance on the reliability of public sector organizations information and its conformance to the General Accepted Accounting (GAA) practices. At the end of an audit, it is the responsibility of auditors’ to express their opinion on the fairness of management on the information presented to them, in accordance to the financial reporting framework (e.g. IFRS). Beyond the auditors opinion and in support of the principle of accountability, internal or external auditors opinion in public organizations, could have a deterrent effect on financial reporting irregularities and employee theft and hence should be encouraged as, it enables government to assess its programs, policies, operations, results and identifying trends and emerging challenges and hence possible stamp out corruption. Considering the said benefits of auditing, existence of auditors in public organizations and failing of public sector organizations, the question of the audit function effectiveness arises. This study therefore assesses the effectiveness of auditing in public organizations using the ministry of environment and tourism in Khomas region of Namibia as a case study. The various tools discussed above were looked into in the Namibian context in this study.

3. RESEARCH METHODOLOGY

The study employed a quantitative design approach as it enabled the researchers to collect data on and analyze further data on audit themes as generated from the research literature. Using questionnaire, data was collected from 21 officers in the ministry of environment and tourism in the Khomas region of Namibia. 2 of the said officers were directors, 5 auditors, 9 accountants and 5 administrative staff. The respondents were identified based on their background of study and current work position or authority that has directly to do with auditing or company authority. The questions of the questionnaire were based on the items generated from the research literature on auditing in public sector organizations. Among these items as sectioned on the questionnaire include audit scope, mandate, information access, internal control strength & compliance, measures at ensuring auditing effectiveness and improvement in corporate governance based on auditing. An additional section of the questionnaire was the section on the bio data of respondents to validate their responses based on their authority background. To ensure that ethical issues were handled, the research was proposal subjected to ethical clearance by the International University of Management (Namibia) research and ethics committee. Informed consent, privacy and confidentiality issues were explained to participants before the questionnaire were distributed to them. The data analyses was undertaken by coding the research themes (from literature) into SPSS, entering the raw data onto SPSS and running it and after, corresponding graphs / charts generated as such.

4. RESULTS PRESENTATION

Figure 1 shows that, while 79% of the respondents held undergraduate qualifications, 18% were held their masters and grade 12 certificates. This is an indication that, majority of the respondents might have received some minimum level of education in their training that had components of auditing and hence they could relate to the research. As in Figure 1, while 42% of the respondents were accountants, 21% each were auditors and administrative staff and 8% were Directors. This indicated that majority of the respondents were in position that brought them directly or indirectly into contact with auditing processes and hence were in good position to respond to the study instrument. This is even more evident in the participants number of years of service as most of them had worked for over a year as professionals in their current job positions. On whether auditors get influenced by employees or management, 100% of the respondents indicated a no and hence indicating the independence of auditors.

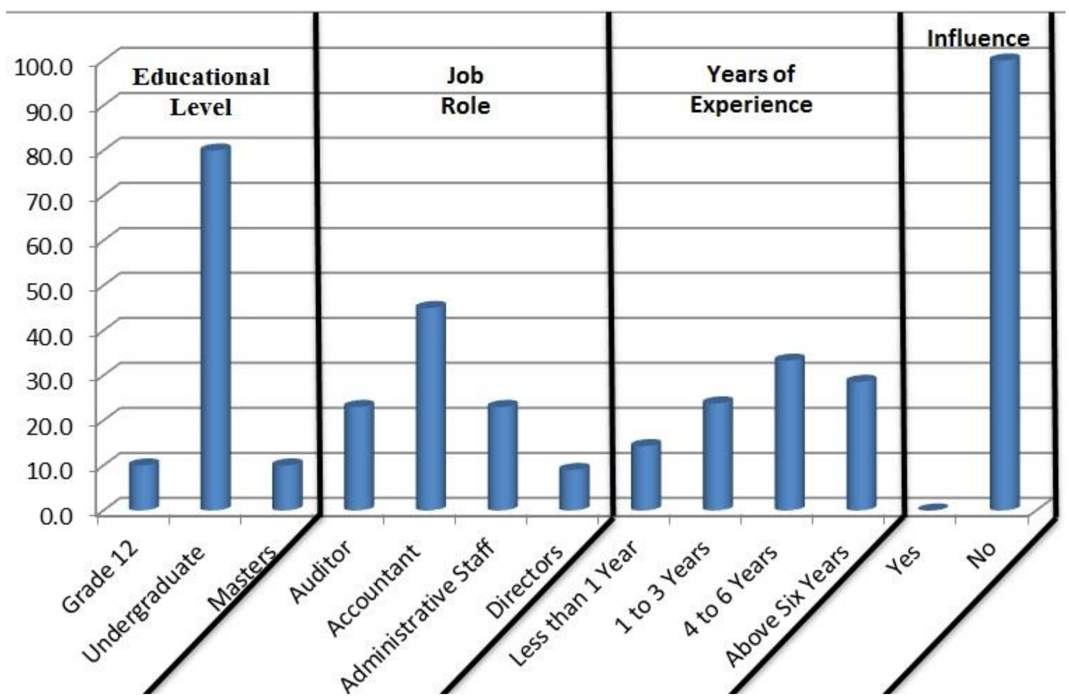

FIGURE 1: Education, Position, Years of Experience and Influence of Auditors.

As in Figure 2, the respondents were divided on whether audit scope is defined during auditing as 50% each indicated define and undefined respectively. 89% of the respondents indicated that the audit department carries out their mandate of auditing. Furthermore, 96% of the respondents each indicated that auditors have access to information and that auditing strengthens internal controls and functional units comply with audit recommendations, respectively. Notwithstanding this, the respondents indicated the lack of audit committees which could affect the independence of the auditing function, from management.

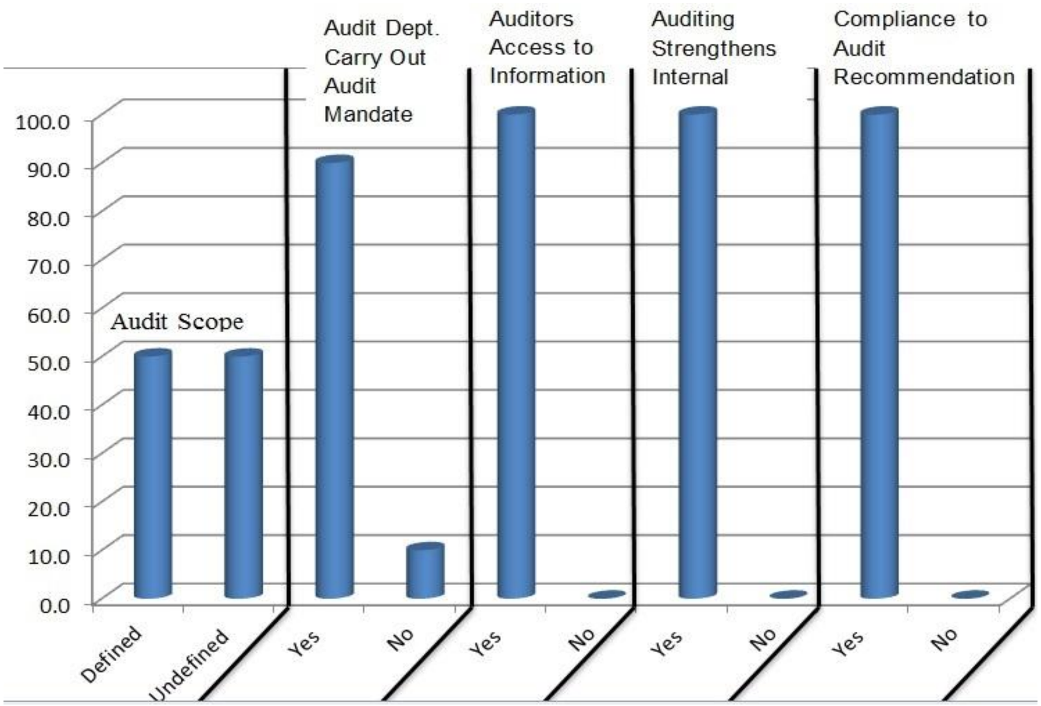

FIGURE 2: Audit Scope, Mandate, Information Access, Internal Control Strength & Compliance

On ensuring effectiveness of auditing, majority of the respondents (35 of the 45) indicated that, sufficient funds should be made available to the audit department, that the audit department be made independent, that the audit staff and leadership be competent and that the audit department be granted unrestricted access. This is confirmed in Figure 3. Considering that corporate governance could promote effective auditing, the study further collected corporate governance data and analyzed as such.

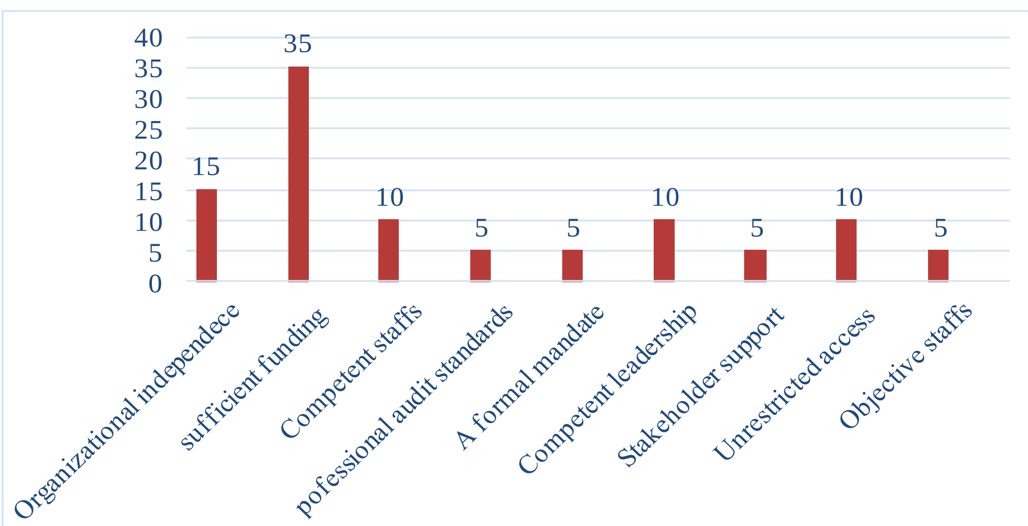

FIGURE 3: Measures at ensuring auditing effectiveness.

On improvement that auditing ushered into corporate governance, while social responsibility and independence remained constant, transparency, accountability and responsibility improved. Fairness and discipline greatly improved. This is illustrated in Figure 4.

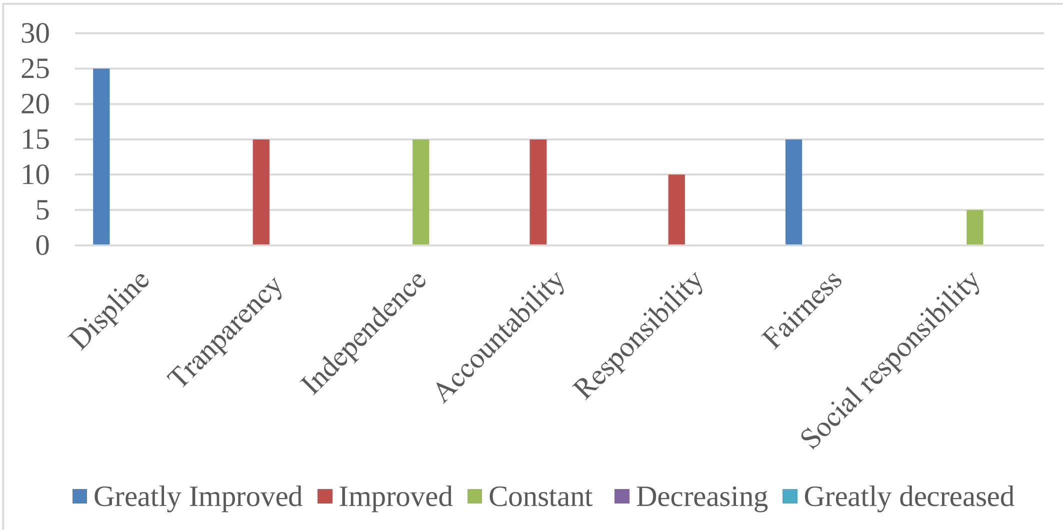

FIGURE 4: Improvement in Corporate Governance.

5. CONCLUSIONS AND RECOMMENDATIONS

Public sector auditing strengthens public governance by providing responsible governance in institutions, protecting core values of the public sector entities, ensuring managers and officials conduct public business transparently, fairly, and honestly, as well as with equity and integrity. Considering the existence of auditors and the little available published literature on the effectiveness of auditing in public organizations in Namibia, this study examined the effectiveness of auditing in public organizations in Namibia.

The study found that internal auditing function is not fully independent due to the absence of an audit committee and hence confirming [27] findings that an audit committee, that is independent, serves as an influential moderator between internal control components and financial performance. The study also established that an organization's independence, sufficient funding, and unrestricted access are critical measures to ensure effectiveness of auditing. Furthermore competent staffs, formal mandate, professional audit standards, competent leadership, stakeholders support and objective staffs are important elements that ensure that audit functions aid public sector entities to achieve their objectives. This is in tandem with the findings of [28] that an audit committee member's expertise and experiences influence internal auditing that positively influence return on equity.

It is recommended that the State Finance Act 31 (1991) of Namibia be amended to make provision in the current reporting structures of the ministries, to include audit committees. Furthermore, regulations and policy framework to guide the establishment of audit committees should be formulated. Since this study focused only on one ministry, generalization of the study results should be done with caution. Future studies should include more public organizations and if possible, attempt to compare auditing in public and private sectors.

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