

# Evidence of the Determinants of Audit Quality: A Non-governmental Organisations Perspective in Uganda

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## Abstract

While audit quality has been widely investigated on the global scale, little research has been conducted on the determinants of Audit quality for non-governmental organizations (NGOs) and in the context of Uganda. This article is motivated by the unending observations of audit quality determinants being unclear and indecisive. Using a cross sectional research design and a quantitative approach with the aid of a self-administered questionnaire, this article investigates what the finance/procurement managers for NGOs in Uganda perceive to be the key quality determinants for the work done by auditors. Whereas results generally reveal that auditor fees, auditor firm size, auditor competence, auditor independence, and number of audit assignments significantly relate with audit quality, auditor tenure and auditor age were found to have insignificant effects on audit quality. This article therefore provides more insightful evidence about the ongoing discussions on the determinants of audit quality for NGOs in Sub-Saharan African, particularly from the Ugandan perspective.

**Keywords:** Audit quality, auditor competence, firm size, auditor tenure, auditor fees, NGOs, Uganda.

**DOI:** 10.7176/DCS/11-6-04

**Publication date:** June 30<sup>th</sup> 2021

## 1. Introduction

Audit is a governance function to which auditors express opinions regarding the truthfulness and fairness of the financial and other operational statements ( for example, on procurement systems, structures and processes) associated with activities undertaken by reporting organisations (Tumwebaze, Mukyala, Ssekiziyivu, Tirisa, & Tumwebonire, 2018). As such audits would provide the assurance and confidence to the users about the actual performance as well as the correct reporting of performing organisations (Bananuka, Nkundabanyanga, Nalukenge, & Kaawaase, 2018). At an individual level, auditors thus have a duty to nurture their expertise, have the appropriate qualifications, and develop the right skills to deliver financial and procurement statement opinions among others that are relevant unbiased, and of accurate position; and at an organizational level, many other factors are at play including internal control systems of the performing firm and the size of the audit firm, though audit firm size has had mixed responses (Al-Khaddash, Al Nawas & Ramadan, 2013).

Different authorities provide guidance to the audit profession (*See*, The US Advisory Committee on the Auditing Profession, 2008; The Australia Treasury Audit Quality – a Strategic Review, 2010; The UK Financial Reporting Council-Audit Quality Framework, 2008), but with limited focus on the quality of audits for NGOs, yet NGOs have tremendously grown in number and donors heavily fund them with the belief that they have the potential to fill the public service delivery gaps of government (Damba, 2018; MIA Press Release, 7th August 2019). Such makes auditing and determining of the true performance of NGOs very challenging (Lehman, 2007; Humanitarian Financing Task Team, 2016; Joint Inspection Unit, 2017). While more recently audit guidelines have become paramount for the operations of NGOs, globally the credibility of their audit processes, audit outcomes, auditors' role and the overall corporate governance aspects remain questionable (Horvat & Bobek, 2019). This has led to the formulation of policy measures such as a ban on audit firms taking on non-audit services, rapid adoption of Sarbanes Oxley Act (SOX) and internal auditor independence by not undertaking self-reviews (Al-Khaddash, et al., 2013).

Notwithstanding the aforementioned audit reforms, empirical evidence still shows that the determinants of audit quality are unclear and indecisive (Kaawaase, Assad, Kitindi, & Nkundabanyanga, 2016). This study offers empirical evidence on the perceptions of what determines the quality of audit with regard to audit firm characteristics and the usefulness of audit teams to ensure trustworthiness and confidence of the public in the audit report outcomes and the integrity of the financial reporting system of NGOs (Shockley, 1981; Pany & Reckers 1988).

Exploring audit quality in Ugandan NGO sector is noteworthy based on the prominence of getting a high quality audit process in the Ugandan non-governmental organisations. One of the momentous sectors in Uganda is the NGO sector which is important in the Ugandan economy with the role of bridging the gaps that government funding and operations may not sufficiently reach or cover but also creating efficiency in public service provision. However, Kaawaase et al. (2016) reveal challenges in measuring audit quality in both developed and emerging economies. Revelations in the New Vision as reported by Mubiru (2020) indicate that some accountants do not perform audits to the level of quality expected of them, calling for disciplinary action by the Institute of Certified Public Accountants of Uganda, the Institute of Procurement Professionals of Uganda as well as the Public

Procurement and Disposal of Public Assets Authority. Inappropriate audit quality might be against high risks of corruption, the potential for fraud and unethical business practices, extreme poverty and conflict among others in environments where these NGOs operate, Uganda inclusive (Manley, 2018). Kasigwa, Munene, Ntayi, & Nkote (2013) find that some auditors engage in practices like accepting client explanations to audit issues to substitute other audit evidence that can be got as well. Such practices can potentially reduce the audit quality. Also, low financial and procurement accountability is cited among Uganda's non-profit organisations, reporting 31 percent of them not having complete financial and procurement information or having information with significant errors (Dang, Burger, & Owens, 2019). This is against objectives of audits that are intended to support NGOs in order to take corrective actions over their financial and procurement information. This can be interpreted as a sign of lapses in audit quality. Exploring audit quality practices in non-governmental organisations' sector might support improved accountability within this sector. The aim of this study therefore is to examine the determinants of auditing quality in the Ugandan NGOs from the viewpoints of their finance/procurement managers, and to make a contribution to the existing audit quality literature.

### 1.1 Theoretical framework

The services of auditors are demanded as monitoring tools due to potential conflicts of interest between business owners and those among different shareholders which can increase agency costs (see Watts, 1977; Benston, 1980; Watts & Zimmerman, 1981). To ably execute their monitoring role, auditors should be independent with reasonable tenure (Kaawaase & Nkundabanyanga, 2017), competent (Ferdinand, Syaifuddin, Dali, & Masud, 2019), and their firm size (Ndubuisi & Ezechukwu, 2017), fees (Choi, Kim and Zang, 2010), number of audit assignments and auditor age (Persson, 2011) should be of reasonable magnitude. Audit quality as an output of the audit process is a sign that auditors are effectively undertaking their role of monitoring management activities (Chersan, 2019) as guided by the agency theory.

## 2. Literature review

In absence of an inclusive audit quality definition covering the different categories of audits and auditors (Al-Khaddash, et al., 2013), we adopt the definition from DeAngelo (1981) that refers to audit quality as a probability that the auditor will both discover and report a breach in the client's accounting and procurement system based on the applicable audit standards and procedures. This description is suitable for both external and internal audits whether programmatic or compliance in nature.

Audit quality comes into play when the principal engages an agent to perform a service on his/her behalf. The principal-agent relationship implies that the principal trusts the agent to act in his/her best interests, which may not always be the case as the agent might instead work against the principal's interests. This suggests that an auditor must be deployed to oversee the performance of the agent (Retzl, 2017).

Several studies reveal that audit quality might be guaranteed by employing auditors who have the right experience, are honest and with the knowledge and skills in accounting, procurement and auditing standards (DeAngelo, 1981; Hameed, 1995). On the other hand, Alqam and Alrajabi (1997), and Abbott and Parker (2000) discovered that auditor rotation could be very appropriate for audit quality assurance but noted that such might only be influenced by management replacement, audit office, enthusiastic and independent audit committees, and international auditing standards and ethical requirements. Furthermore, Abbott, Parker, Peters and Raghunandan (2003) and Abbott, Parker and Peters (2004) acknowledge that an independent and active audit committee are more likely to demand greater audit quality level arising from monetary and reputational loss trepidations. Kaawaase and Nkundabanyanga (2017) contend that auditor independence is critical in ensuring that the interests of stakeholders are safeguarded, and such is consistent with Brown et al. (2006) recognition of auditor independence enhancing financial and/or procurement disclosure quality. Finally, Omonuk and Oni (2015) established that developing country firms that employ computer assisted audit techniques (CAATs) yield positive and significant influence on audit quality as opposed to those that apply traditional methodologies. Aroused by the fact that firm and individual characteristics are generally associated with audits (DeAngelo, 1981; Hameed, 1995; Parker et al. 2003; Brown et al. 2006), we hypothesize that audit quality for NGOs in Uganda may be influenced by firm size, auditor fees, auditor independence, auditor tenure, auditor competence, number of audit assignments, and the age of the auditor.

### 2.1 Firm size and audit quality

Big Audit firms are presumed to conduct more accurate tests therefore more likely to be associated with precise information than their small audit firms as a way of protecting the brand name and reputation of the organisation for business continuity. Auditor independence, competence and associated with larger forecast errors as characteristics of firm size which are indeed positively related with audit quality (Suseno & Nofianti, 2018; Beatty, 1989).

Big audit firms are well structured in terms of talented employees and superior technology which may support

their advanced audit performance compared to small audit firms (Ndubuisi & Ezechukwu, 2017; Francis & Wilson, 1988; DeAngelo, 1981), and can exert more pressure on management because of their client portfolios (Mahdi & Ali, 2009; Lys & Watts, 1994). The expectation is that financial and procurement statements that have been audited by large firms will have minimal errors and misstatements arising from self-interests (Rezaei & Shabani, 2014). Dopuch and Simunic (1982) note that audit quality is a function of the number of and the extent to which audit procedures are performed, and tasks that big audit firms can easily do as they have access to more resources than small audit firms. This implies that where firm size and audit quality are positively associated, large differences are likely to exist between reported and forecasted incomes for entities audited by large auditors than with small auditors after controlling for client risky characteristics (Rezaei & Shabani, 2014). In a conducted experiment of six large and small audit firms, Krishnan and Schauer (2000) found out that compliance increases as one moves from the small to large audit firm size category, while because large audit firms have the capacity to employ a reasonable number of professional auditors than small audit firms can do.

*H1: Audit firm size have an effect on audit quality.*

## 2.2 Auditor fees and audit quality

According to Hoitash, Markelevich and Barragato (2007) auditor fees refers to costs that client organizations incur to pay for the audit and other accompanying services provided by audit firms. Such fees are meant to enable field and office staff undertake field audit activities, as well as assure the audit firm of the realization of the expect profit of the audits pursued. The common ways of arriving at audit fees to be charged are low-balling (where the auditor sets low audit fees for a new client) and the estimated cost plus margin (the costs that the auditor expects to spend on the assignment and adds a percentage for the profit) (Kinney & Libby, 2002). Francis and Simon (1987) suggest that audit fees differentiate the quality of audits to be provided in a competitive world. Deis and Giroux (1996) asserts that client organizations are likely to pay higher audit fees (premium inclusive) as long as they believe that the auditors will deliver high quality audit services. While there is enough evidence showing audit premiums to be an important component of the audits (Al-Khaddash, et al., 2013; Craswell, Francis & Taymor, 1995), such may not always be the case (Chaney, Jeter & Shivakumar, 2002). Under normal circumstances a moderate audit premium fee should be offered since excessively high audit fees tend to compromise the auditors' reporting (Choi, Kim and Zang, 2010).

Notwithstanding the mixed evidence on the relationship between audit fees and audit quality, with the Ugandan context, we hypothesize as follows;

*H2: Auditor fees affect audit quality among the NGO sector in Uganda.*

## 2.3 Auditor independence and audit quality

According to Gay and Simnett (2003: 745) Auditor independence is the 'ability to withstand pressure from management influence when conducting an audit or providing audit-related services, so that the professional integrity of the auditor is not compromised'. Auditor independence is thus a fundamental principle that underlies and influences the work of external and internal auditors, preparers and users of financial and procurement performance statements (Moore et al., 2006). Note that auditor Independence must be enhanced by instituting an independent audit committee that would ensure the decisions of both internal and external auditors are free from management influence (Kaawaase & Nkundabanyanga, 2017; Caswell & Allen, 2001).

A study conducted in Uganda, Warabyeki (2008) established auditor engagement controls, internal governance controls, and the oversight of auditors to improve auditor independence, and so would be audit quality. Observance of auditor independence and audit quality seem to be anchored predominantly in having sound audit performance measures as well as the motivation of the auditors and other stakeholders to comply with the ongoing professional ethical standards (Ponemon & Gadhart, 1990).

According to Al-Khaddash et al. (2013) experienced auditors are likely to be more independent and produce better audit quality reports than unexperienced auditors since they can tactfully resist client management pressures and negotiate with ease over performance reporting concerns. In summary therefore, auditor independence is paramount in the delivery of quality audit work (Hardiningsih et al., 2019).

*H3: Auditor independence has a positive effect on audit quality.*

## 2.4 Auditor competence and audit quality

Auditors are expected to possess the required professional competences acquired through formal education, professional certification, participation in symposia, seminars, trainings and experience (Hardiningsih et al. 2019; Zu'amah, 2009) to perform their work well. Such assertion implores smart auditors to strive to uphold competence through continuous professional knowledge update in order to compete fairly in the audit global market. Auditor competence is therefore expected to support in understanding the business run processes to enhance the audit procedures that would help in producing better quality audit reports (Ferdinand, Syaifuddin, Dali, & Masud, 2019; Christiawan, 2002).

*H4: Auditor competence has a significant effect on audit quality*

**2.5 Auditor tenure and audit quality**

Tenure is when the auditor holds a long-standing relationship with the client. This condition emboldens a profounder appreciation of the client's financial and procurement condition (Hardiningsih et al. 2019). There are two contrasting views relating to the effects of auditor tenure on audit quality. The first being, the longer the auditor-client relationship becomes the more likely will he auditor develop a closer relationship with a client, something that may prompt an auditor to serve management interests for such organization (Ndubuisi & Ezechukwu, 2017; González-Díaz, García-Fernández, & López-Díaz, 2015). Such view calls for mandatory audit partner rotation. As well, a long tenure tends to encourage the auditors to lose the professional skepticism by applying weak audit procedures that can essentially favour the clients in case client's behavior remains unchanged overtime (Kaawaase & Nkundabanyanga, 2017). Such would reduce audit quality due to compromised independence, professional care and innovativeness of the auditors (Hardiningsih et al. 2019; Vanstraelen, 2000). The other view is that, "auditors understanding of the clients' business increases as the auditor tenure grows and so is audit quality because auditors would have developed audit expertise to discover misstatements with the technical capabilities and knowledge acquired (Vanstraelen, 2000) during the course of their work. This is consistent with prior studies that have highlighted that long auditor tenure may not impair audit (Knechel, & Vanstraelen, 2007; Lim, Tan, & Cheng, 2010).

*H6: Auditor tenure affects audit quality*

**2.6 Number of audit assignments and audit quality**

The Financial Supervisory Authority of Norway Report (2010) suggest that the number of audits one handles reduces the amount time an auditor would spend to complete subsequent audit assignments. This, according to Persson (2011) can pose a risk of reduced quality control mechanisms which automatically undermines audit quality. According to Watts and Zimmerman (1986) auditors ensure that corporations comply with policies, laws and regulations but if at any one time they hold many client commitments, this condition might overstretch their ability to perform their duties appropriately. In such a case the concentration of the auditors might be on getting excessive compensation than realizing the best audit outcome (Core, Holthausen & Larcker, 1999).

The foregoing argument though, does not consider the other side of holding many assignments. Bauwhede and Willekens (2004) support the concept of holding a number of audit assignments for improved auditors' performance. According to Vander Bauwhede and Willekens (2004) many audits are more beneficial because such further the competence and experience of auditors in their professional work auditor. An implication that with fewer assignments the quality of audit work would be lower.

*H7: The number of audit assignments significantly affects audit quality.*

**2.7. Auditor's age and audit quality**

Often society believes the older one becomes as an employee the less the outputs that a person produces (Rhodes, 1983; Persson, 2011). However, most of the studies that Rhodes (1983) examines provide mixed results about the influence of age on audit quality. Findings therefore present inconclusive evidence.

Similarly, Conroy, Emerson and Pons (2010) in their study on ethics in relation to age of auditors at different ranks provided divergent opinions. For instance, auditors at managerial level exhibited more acceptance for questionable ethical issues than lower level and young auditors (Conroy et al. 2010). Such provides the evidence that older auditors are capable of producing quality audits than their younger counterparts.

*H8: Auditors' age significantly affects audit quality.*

**3. Methodology**

A cross-sectional quantitative research survey design (Kothari, 2002) with self-administered questionnaires were employed to collect data from respondents. Questionnaires were distributed to finance/procurement managers in Uganda working for NGOs. While initially the interest was to collect data from individuals with finance and procurement expertise separately, only finance personnel were used since it was later discovered that unlike public sector entities most NGOs in Uganda, the finance personnel perform most of the procurement tasks. The article uses purposive sampling to identify 382 finance/procurement personnel that work with NGOs. We received back a total of 246 questionnaires (representing 64.4%) that were valuable for the study analysis. Table 1 below shows a summary of the respondents' characteristics in terms of formal education level, whether they have accountancy/procurement professional qualification, and their position within their organisation. These characteristics mutually suggest that respondents had the knowledge and experience required to provide valuable survey responses.

Table 1: The demographic background

Variable ( <i>N</i> = 246)	Freq.	%	Mean	SD	Var	Min.	Max.
<i>Position</i>			0.46	0.29	.21	0	1
Finance/procurement manager	246	100					
<i>Gender</i>			0.42	.49	.25	0	1
Male	162	65.85					
Female	84	34.15					
<i>Age of respondent</i>			2.96	.67	.45	1	6
Below 19	0	0					
19 – 30	52	21.14					
31 – 40	134	54.47					
41 – 50	44	17.89					
51 – 60	16	6.50					
Over 60	0	0					
<i>Qualification of the respondent</i>			2.58	.98	.97	1	4
Diploma	13	5.29					
Bachelors	196	79.68					
Masters	32	13.00					
PhD	5	2.03					
<i>Professional certification</i>			0.84	.86	.57	0	1
Yes	207	84.15					
No	39	15.85					
<i>No. of years of audit work</i>			2.21	.92	.55	1	3
3 years or less	48	19.51					
4-10 years	157	63.82					
Over 10 years	41	16.67					

Source: Primary data

### 3.1 Data collection instrument and measures

The instrument is divided into eight sections: section 1 provides the respondents' demographic and background information. Section 2 to section 8 were dedicated to issues that extant literature identifies from previous scholarships (DeAngelo, 1981; Beatty, 1989; Deis & Giroux, 1992; Kaawaase & Nkundabanyanga, 2017; Hardiningsih et al. 2019; Abbott et al., 2016; Knechel, & Vanstraelen, 2007) that determine audit quality. We identify five issues related to audit quality, five issues on auditor firm size, three on auditor fees, nine on auditor independence, six on auditor competence, and five on auditor tenure and three on the number of audit assignments handled by an auditor. These issues were then anchored on a five-point Likert scale asking respondents as to whether in their opinion the different categories of issues would affect audit quality, whereby 1 = strongly disagree to 5 = strongly agree. These scales have been reviewed for correctness and applicability in the Ugandan setting with the help of 10 experts. A Content Validity Index of 0.80 and above for all issues in the questionnaire were obtained, indicating acceptable validity of the research for the pre-test.

### 3.2 Data analysis tools

The researchers used SPSS version 23 to analyse the data. First, simple frequency runs were to identify and fill missing data, and subsequently, validity and reliability tests, and correlation and multiple regressions were conducted. Principal component analysis and Cronbach's alpha ( $\alpha$ ) coefficients were used to examine the validity and reliability of the scales as measures of audit quality, auditor fees, auditor independence, auditor fees, firm size, auditor competence, number of audit assignments handled by an auditor and auditor tenure. Principal components analysis using Varimax rotation method was used to establish convergent validity by extracting 7 suppressed factor loading coefficients to avoid lower loadings lower than 0.5. We also examined the appropriateness of the data for factor analysis based on the sample size adequacy, the Kaisa-Meyer-Olkin (KMO) and the Bartlett's test of sphericity. The KMO value from the test for all the factors was 0.889 and, the Bartlett's test of sphericity for all the scales was statistically significant ( $p < 0.001$ ). These results generally support the factorability of the correlation matrices since they are significantly different from the identity matrices in which the variables might not correlate with one another, hence absence of multicollinearity.

Tests for reliability of all our scales reveal Cronbach's  $\alpha$  coefficients were above 0.7 (audit quality  $\alpha = .813$ ; firm size  $\alpha = .811$  auditor fees  $\alpha = .801$ ; auditor independence  $\alpha = .899$ ; auditor competence  $\alpha = .798$ ; auditor

tenure  $\alpha = .776$ ; number of audit assignments  $\alpha = .788$ ), hence internal consistency of the instrument (Hair, Black, Babin, & Anderson, 2010). Table 2 below shows the percentage variance of 93.6 in the entire model of the determining variable factors of audit quality among NGOs in Uganda.

Table 2: Rotated PCA for the variable factors of the study.

Scale items	Variable factors						
	FS	AF	AI	AC	AT	AQ	AN
<i>Firm size (FS)</i>							
The firm's auditor is among the big four	.895						
The auditor has all the staff needed to carry out all the assignments	.923						
The auditor's brand name is bigger than that of the clients they serve	.884						
The audit firm uses higher technology to do their work	.839						
Audit firm conducts their assignments without managements' bias	.798						
<i>Auditor fees (AF)</i>							
Auditor charges match the work that audit firms do		.871					
Our firm regularly pay higher fees if they find it appropriate		.887					
Higher auditor fees support auditors to do their work objectively		.896					
<i>Auditor independence (AI)</i>							
There is regulation of clients that are audited			.836				
Our firm usually has proper governance structures constituted			.827				
There is rotation of audit firms and audit partners			.801				
There is fear of disciplinary action by professional bodies			.799				
There is a risk of auditor reputation from public scandals			.794				
There is a requirement of annual auditor reappointments			.773				
Auditors are required to obtain expert clearance from outgoing auditor			.822				
Auditor's disclose non-audit fees paid to them by the same client			.766				
<i>Auditor competence (AC)</i>							
The auditor has the ability to detect accounting/procurement misstatements				.922			
This audit firm is willing to oblige proper accounting/procurement treatments				.843			
Audit firm staff are accounting/procurement professionals and as such are regulated				.833			
The audit staff have the necessary audit experience of NGO sector				.756			
Our auditors can complete assignments within the shortest time possible				.844			
Audit staff are well trained to handle accountancy/procurement work we give them				.755			
<i>Auditor tenure (AT)</i>						.826	
Longer auditor stay with the client helps them to do their work better						.801	
You appreciate your client's operations with time						.740	
Your long stay with client does not lead you to favour management						.803	
Even with a long tenure, auditor scepticism may not be hampered						.770	
Auditors will apply strong audit procedures irrespective of tenure length						.734	
<i>Audit quality (AQ)</i>							
Our auditor will detect and report a material misstatement						.838	
Audits support to improve the quality of financial/procurement and program reporting						.827	
Use of big four by NGOs helps them to get more donor funding						.791	
Our financial/procurement and other internal processes operate efficiently						.789	
The presence of audit systems is well embraced by NGOs						.799	
<i>Number of audit Assignments (AN)</i>							
Having many assignments affects the work of your auditors							.887
Having more clients usually overstretches your auditors to detect errors							.776
Your auditor is always busy to provide adequate time to the organisation							.764
<b>Initial Eigen values</b>	4.89	3.29	3.00	2.57	2.12	1.68	1.49
<b>Eigen values after rotation</b>	3.12	3.03	2.89	2.86	2.84	2.81	2.79
<b>Total percentage variance</b>	15.42	14.53	14.22	13.78	13.33	12.72	12.30
<b>Cumulative variance (%)</b>	15.42	29.95	44.17	57.95	71.28	84.00	96.30

Note: A principal component analysis with Varimax rotation was used, based on a sample size of 246, Bartlett's test of sphericity sig. < 0.001 and Kaiser-Meyer-Olkin (KMO) sig. = 0.889.

To be able to conduct descriptive and relational analyses, the scale observed variables for each of the constructs were combined into a single variable using averages. This was done by computing a new variable for all the variable items represented by the variable factors that have been identified in the factor analysis.

*The model specification*

The new variables computed are presented in the models that follows hereunder that were used to examine the determining factors of audit quality

$$audqual = \beta_0 + \beta_1 fsize + \beta_2 audfees + \beta_3 audind + \beta_4 audcomp + \beta_5 audtenu + \beta_6 audassign + \beta_7 audage + \varepsilon \dots\dots\dots$$

(i) where,

$\beta_0$  = Constant

$\beta_1 - \beta_7$  = Coefficient of parameter estimates

*audqual* = Audit quality

*fsize* = Firm size

*audfees* = Auditor fees

*audind* = Auditor independence

*audcomp* = Auditor competence

*audtenu* = Auditor tenure

*audassign* = number of audit assignments

*audage* = Auditor's age in years

$\varepsilon$  = an error term

However, considering the fact that perceptions about the work of internal and external auditors could be different among finance/procurement managers, it was necessary to identify if there are any differences between their responses. This means that model (i) can be respecified to include the dummy variable which takes on the value of zero (0) for external auditor responses and the value of one (1) for internal auditor responses. Where our results return a significant dummy variable, this would suggest significant differences in audit quality perceived between external and internal auditors in their practice.

Therefore;

$$audqual = \alpha + \beta_1 fsize + \beta_2 audfees + \beta_3 audind + \beta_4 audcomp + \beta_5 audtenu + \beta_6 audassign + \beta_7 audage + \beta_8 dummy + \varepsilon \dots \dots (ii)$$

Table 3: Descriptive Statistics

Variable	N	Mean	Std. Deviation	Items	Cronbach $\alpha$
<i>audqual</i>	246	3.27	0.32	5	.813
<i>fsize</i>	246	3.36	0.34	5	.811
<i>audfees</i>	246	3.56	0.78	3	.801
<i>audind</i>	246	3.33	0.36	8	.899
<i>audcomp</i>	246	3.91	0.56	6	.798
<i>audtenu</i>	246	3.38	0.31	6	.776
<i>audassign</i>	246	3.07	0.65	3	.788

Source: Primary data

All variables used in this study are audit quality as dependent variable and five other explanatory variables: perceptions of firm size, auditor fees, auditor independence, the number of audit assignments of the auditor and auditor tenure. Each facet was examined using the mean, standard deviation, and Cronbach's alpha coefficients, see Table 3. Auditor competence generated the highest mean (3.91), followed by auditor fees (3.56), auditor tenure (3.38), auditor firm size (3.36), number of audit assignments handled by an auditor (3.07) and lastly auditor independence (3.33).

**4. Findings and discussions**

We present bivariate correlations and regression analyses about the relationships that exists between the determining factors of audit quality and themselves as well as audit quality which is true for correlations. Regression analyses reveal the extent to which the determining factors influence audit quality among NGOs in Uganda.

4.1 Correlations

Findings in Table 4 reveal that auditor independence has a significant positive correlation ( $r = .375^{**}$ ,  $p \leq .01$ ) with audit quality, as well as auditor fees ( $r = .308^{**}$ ,  $p \leq .01$ ) with audit quality. The same results are revealed between firm size ( $r = .180^{**}$ ,  $p \leq .01$ ) with audit quality, and auditor competence ( $r = .210^{**}$ ,  $p \leq .01$ ) with audit quality. This may be an indication that auditor independence, auditor fees, firm size and auditor competence could be determining factors of audit quality.

Table 4: Correlation Matrix

Variables	<i>audind</i>	<i>audage</i>	<i>fsize</i>	<i>audqual</i>	<i>audcomp</i>	<i>audassign</i>	<i>audtenu</i>	<i>audfees</i>
<i>audind</i>	1	.482**	.056	.375**	.032	-.206**	-.109	.243**
<i>audage</i>	.482**	1	.090	-.103	-.023	-.132**	.106	.137**
<i>fsize</i>	.056	.090	1	.180**	.375**	.220**	.192**	.112*
<i>audqual</i>	.375**	-.103	.180**	1	.210**	-.200**	.131	.308**
<i>audcomp</i>	.032	-.023	.375**	.210**	1	.298**	.301**	.093
<i>audassign</i>	-.206**	-.132**	.220**	-.200**	.298**	1	.255**	-.225**
<i>audtenu</i>	-.109	.106	.192**	.131	.301**	.255**	1	.212**
<i>audfees</i>	.243**	.137**	.112*	.308**	.093	-.225**	.212**	1

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

\* . Correlation is significant at the 0.05 level (2-tailed).

On the other hand, auditor's age negatively but insignificantly ( $r = -.103, p \leq .05$ ) correlates with audit quality, however, the number of audit assignments negatively correlates significantly with audit quality ( $r = -.200^{**}, p \leq .01$ ). The indication is that of the two variables, many assignments may reduce the effectiveness of an auditor to conduct quality audits.

#### 4.2 Regression analysis

Table 5 results are from model 1 specified "examining the relationship between all the independent variables (auditor independence, firm size, auditor fees, auditor tenure, number of audit assignments, auditor competence and auditor age) on audit quality. The model does not consider the effects of the dummy variable that reflect the effect of the nature of internal or external auditors. Overall, the model explains 24.6% of audit quality as a dependent variable given that adjusted R Square was .246. The model was well specified to reflect the overall effect of the explanatory variables on audit quality after introducing the dummy variable, since the F statistic of 21.883 is realized and is significant at  $p < .001$ . Results indicate that auditor competence, auditor independence, firm size and auditor fees have positive significant relationship with audit quality, while the number of audit assignments has negative significant effects on audit quality. The rest of the independent variables such as auditor age and auditor tenure do not have significant effects on audit quality among NGOs in Uganda.

Auditor firm size ( $\beta = 0.111, t = 2.277, p = 0.023$ ) has been found to have a significant positive relationship with audit quality in line with hypothesis H1. This result is consistent with the assertions of Ndubuisi & Ezechukwu (2017) and Mahdi & Ali (2009) who find that the size of the firm matters a lot in ensuring audit quality. To these scholars, big firms can perform more accurate audit tests since they are normally well endowed with talented employees and superior technology which may support their cutting-edge audit performance compared to their small counterparts. This also implies that minimal error and misstatements arising from management self-interest behaviour could be found in financial and procurement statements audited by large firms.

Table 5: Model 1- Regression Results

Coefficients <sup>a</sup>							Collinearity Statistics		
Model	Predictors	Unstandardized Coefficients		Standardized Coefficients		t-statistic	Sig.	Tolerance	VIF
		B	Std. Error	Beta					
1	(Constant)	1.919	.495			3.873	.000		
	<i>audcomp</i>	.247	.061	.200		4.029	.000	.793	1.261
	<i>audind</i>	.277	.052	.279		5.346	.000	.720	1.389
	<i>audassign</i>	-.210	.055	-.188		-3.798	.000	.800	1.249
	<i>audfees</i>	.193	.055	.166		3.514	.000	.877	1.141
	<i>audage</i>	-.053	.049	-.053		-1.071	.285	.762	1.313
	<i>audtenu</i>	.009	.083	.005		.106	.916	.711	1.299
	<i>fsize</i>	.111	.049	.111		2.277	.023	.823	1.215
<i>N</i>									246
<i>R</i> <sup>2</sup>									.257
<i>Adjusted R</i> <sup>2</sup>									.246
<i>F</i> statistic									21.883
<i>Sig. F</i> statistic									.000
<i>Durbin-Watson</i>									1.925

a. Dependent Variable: *audqual*

Also, auditor fees have been found to have a positive relationship with audit quality that is statistically significant ( $\beta = 0.166$ ,  $t = 3.514$ ,  $p < 0.001$ ). This is also consistent with our hypothesis H2, which is in fact in line with Francis & Simon (1987) who suggest that audit service quality can be differentiated by audit fees charged, meaning that the higher the auditor fees the better the quality. This does not however mean that lower auditor fees could signal lower audit quality. This is because Deis & Giroux (1996) find that initial audits with new clients might actually be linked to lower audit fees but with higher audit quality since it's only used as a way to get new clients. This would therefore mean that managers of NGOs are likely to incur lower auditor fees initially but subsequently higher audit fees as long as they believe that the firm is going to deliver audit services of higher audit quality. Despite the mixed results by many scholars (see, Lim & Tan, 2008; Chung & Kallapur, 2003), the inconsistency might be as a result of excessive auditor fees charged (Choi et al. 2010) which might not be practiced among NGOs in Uganda.

Results also show that auditor independence ( $\beta = 0.279$ ,  $t = 5.346$ ,  $p < 0.001$ ) and audit quality are positively and statistically significant. This supports hypothesis H3, which consistent with results from various studies (See; Ramadhanis, 2012; Arisinta, 2013; Darayasa & Wisadha, 2016; Chariri et al. 2017). This means that improving auditors' independence is key to enhancing audit quality. Such could be done through engagement controls instituted in audit processes and audit service, and through internal governance measures like codes of ethics and oversight of auditors. Once independence is secured as indicated by Kaawaase and Nkundabanyanga (2017), audit quality is the ultimate as the auditor will be in position to issue an objective audit report that can be used in decision making by the stakeholders.

Findings further reveal that auditor competence is statistically and significantly related to audit quality for NGOs in Uganda ( $\beta = 0.200$ ,  $t = 4.029$ ,  $p < 0.001$ ), which supports hypothesis H4. This finding is consistent with a number of scholars (DeAngelo, 1981; Puspitasari et al. 2019; Sari & Susanto, 2018; Abbott et al. 2016) who believe that a competent auditor is high likely to discover and report errors and misstatements within the reporting system. By implication auditors should keep abreast with the current professional knowledge to allow them compete favourably within the audit profession and market. This can be done through continuing professional education in order for auditors to preserve and expand their capabilities (Al-Khaddash, et al. 2013). This can therefore, improve auditors' understanding of the client's business processes as well as the audit reports. On the contrary, auditor tenure ( $\beta = 0.005$ ,  $t = .106$ ,  $p > 0.05$ ) has been found to be insignificantly related to audit quality among NGOs operating in Uganda which is inconsistent with hypothesis H6.

The number of audit assignments and audit quality have been found to be negatively and significantly related ( $\beta = -0.188$ ,  $t = -3.798$ ,  $p < 0.001$ ), consistent with hypothesis H7. This implies that any small increase in the number of audit assignments is likely to reduce the level of audit quality. This finding is consistent with Persson (2011) who report that increases in number of audit assignments might reduce the overall time the auditor would spend on each assignment. Hence audit quality since the quality control mechanisms might reduce. It could also be true as many assignments might overstretch the auditors (Jiraporn et al. 2009) hence retarding audit performance. This is however inconsistent with the argument that auditors might benefit out of holding many assignments since their competences complying with audit procedures and writing audit reports might improve (Vander Bauwhede & Willekens, 2004). Lastly, findings reveal that auditor's age may not have any effect on audit quality as was hypothesised in H8 ( $\beta = -0.053$ ,  $t = -1.071$ ,  $p > 0.05$ ).

Model 2 examines the effects of all independent variables on audit quality together with a dummy variable relating to whether the audit assignment was done by an internal or external auditor.

$$audqual = \alpha + \beta_1 size + \beta_2 audfees + \beta_3 audind + \beta_4 audcomp + \beta_5 audtenu + \beta_6 audassign + \beta_7 audage + \beta_8 dummy + \varepsilon \dots (ii)$$

Table 6 (model 2 results) helps in confirming hypothesis H5. Findings reveal that there were no significant differences between the responses made for internal and external auditors' work ( $\beta = 0.002$ ,  $t = .031$ ,  $p > 0.05$ ). This finding means that both internal and external auditors are likely to discover errors and misstatements and report them (DeAngelo, 1981). With the requisite professional competences, the audit quality of both internal and external auditors is expected to be high. This might demand that internal and external auditors keep up to the game with continuous professional trainings (Hardiningsih et al., 2019) so that they are able to institute reasonable audit procedures as they perform their work. This is likely to create harmony in the quality of audits between internal and external auditors that undertake work among NGOs in Uganda. The results following the effects of the other independent variables remained unchanged as in model 1 after the introduction of a dummy variable (see, Table 6).

Table 6: Model 2- Regression Results  
**Coefficients<sup>a</sup>**

Model	Predictors	Unstandardized Coefficients		Standardized	<i>t</i> -statistic	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	2.187	.535		4.088	.000
	<i>audcomp</i>	.270	.064	.219	4.241	.000
	<i>audind</i>	.279	.052	.281	5.386	.000
	<i>audassign</i>	-.191	.057	-.170	-3.328	.001
	<i>audfees</i>	.186	.055	.160	3.374	.001
	<i>fsize</i>	.128	.050	.129	2.548	.011
	<i>audage</i>	-.098	.074	-.071	-1.323	.187
	<i>audtenu</i>	.010	.081	.006	.123	.899
	<i>dummy</i>	.003	.087	.002	.031	.976
<i>N</i>						246
<i>R</i> <sup>2</sup>						.261
<i>Adjusted R</i> <sup>2</sup>						.248
<i>F</i> statistic						19.044
<i>Sig. F</i> -statistic						.000
<i>Durbin-Watson</i>						1.936

a. Dependent Variable: *audqual*

## 5. Conclusions

We have examined the determining factors of audit quality among NGOs in Uganda, and established that auditor competence, auditor independence, firm size and auditor fees are likely to increase audit quality, whereas the more number of audit assignments handled reduce audit quality since auditors may not find appropriate time to properly execute audit assignments. Also, the study does not find significant effects between auditor tenure and auditor age on audit quality in the view of NGO finance/procurement staff. As well the study does not find any significant differences in the responses of the finance/procurement staff about internal and external auditors' work. These findings present implications for auditors and audit firms in optimising their quality as perceived by the finance staff in the NGO sector.

It is worth noting that since this study used cross-sectional research design, the possibility of monitoring the changes that would occur to the perceptions of the finance/procurement staff on the quality of audits as auditors perform their audit assignments over time might be limited. Further research may analyse the relationship between the audit quality determinants and audit quality in the public sector enterprises and NGOs in Uganda and those located in countries where the legal requirements are different. This research especially perceptions in the area of auditor tenure and auditor age might further add to audit quality theory that this study contributes to.

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