

Assessment on Implementation of Audit Findings Reported by Office of Auditor General: Case Study at Ethiopian Public Sectors

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Abstract

The main aim of this case study is to assess the extent of audit findings implementation in Ethiopian public offices. Auditors express their opinion on audit finding through audit report to concerned body in each sector and design follow up mechanism for their implementation. Auditor's opinion will bear the expected fruit only when it is fully implemented according to auditor's recommendations. In order to assess the stage of audit findings implementation in public offices of the region, primary data was collected through Likert-scale type questionnaire from audited entities and auditors. The collected data were analyzed through simple descriptive statistics using percentage. The result of the case study revealed that there is no frequent practice of audit findings implementation in the public offices. The main causes for lack of audit findings implementation in public sectors are lack of interest for audit report; absence of integrated effort to implement audit reports; weakness in follow up; and delay in audit report presentation to audited entities. On the other hand, absence of audit findings implementation in public offices results in wastage of public treasury and opens a way for corruption and criminal acts. Thus, the offices of auditors should work aggressively on the means of maintaining audit findings implementation in each public office and design best mechanisms for audit findings implementation follow up procedures.

Keywords: Audit findings implementation, audit reports, public sectors, Ethiopia

1. Introduction

1.1. Background of the study

Public sectors are body of government entities established with the main aim of providing regular services to the whole society in an effective and efficient manner. The governmental bodies play a greater role through public sectors in meeting the current increasing demand of society for public services. The public sectors could achieve this goal by assuring the existence of responsible and accountable financial and operational performance in each sector. Auditing practice is one of the commonly used and key mechanisms of assuring the practical existence of responsible financial and operational activities in any sector. Hence, government auditors, as agents responsible for auditing government income and expenditures; and have critical role by acting as watchdogs for financial integrity and creditability of reported financial information.

Auditing is the process in which a competent and independent person accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria (IIA, 2012; MOFED, 2013). The objectives of auditing activities are to prepare a written opinion or report on the fairness of the financial statements provided and on its compliance with accounting and legal regulations or evaluate the adequacy and effectiveness of controls encompassing the organizations' governance operations and internal system. In addition, audit reviews include the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts (IIA, 2012; Cosserat and Rodda, 2009).

According to Cosserat and Rodda (2009), the general purpose of an audit report is: "... to give assurance and/or highlight problems with regard to the truth and fairness of the financial and operational compliance with the applicable reporting framework, law and other relevant regulation." Auditors express their opinion on audit finding through audit report to concerned body in each sector and design follow up mechanism for their implementation. Auditor's opinion will bear the expected fruit only when it is fully implemented. However, there is big gap in audit report implementation especially in Ethiopian public sectors. This was happened due to lack of management support and concern in auditor's opinion implementation. Even in some sectors, the management does not offer full freedom for auditors to verify the implementation and follow up their opinion. Therefore, the main aim of this study was to assess the extent of implementing auditing findings reported by office of auditing general (OAG) in public sectors. The study was conducted in Ethiopian public sectors found in Southern Nations, Nationalities and Peoples' Regional State (SNNPRS). SNNPRS (hereafter referred to as the region) is one of the nine Ethiopian regional state geographically found in Southern part of the country. For the purpose of this case study, only those public entities responsible to audit their financial and

operational performance and implement audit findings were considered.

1.2. Statement of the Problem

The primary objectives of many audit functions are reviewing internal controls, assessing fair utilization of allocated resources, evaluating rules and regulations implementation according to reasonable procedures. All audit activities are performed in line with established auditing standards and guidelines. Auditors summarize and express outcomes of their audit performance through preparing audit report.

Audit reports should provide assurance and highlight problems with regard to the truth and fairness of the financial and operational performance (Cossierat and Rodda, 2009). In addition, the written audit reports should communicate the results of audits to all levels of government, make the results less susceptible to misunderstanding, make the results available for public inspections, and facilitate follow-up to determine whether corrective actions have been taken (INTOSAI, 2004). This implies that auditing tasks do not end up with the provision of final audit report to audited entities and/or concerned bodies rather the auditor and auditee design follow up mechanism for their implementation. Specifically, the audited entity should take full responsibility of assuring audit reports implementation unless it destroys the ultimate goals of audit function.

An audit provides assurance regarding the truth and fairness of an entity's financial and operational position presented by the management. The main objective of government auditing is to express opinion on financial statements and related issues of legality, regularity, and fraud as well as examining whether government institutions are operating economically, efficiently and effectively. To achieve these objectives, the country has established office of the auditor general whose independence is protected by law in each region. Given the importance of its role, however, queries are often raised about the audit, the auditors and the stakeholders they serve.

Accordingly, SNNPRS have office of the auditor general that examines regional, zonal and local government offices with strict ethical and disciplined manner. Public office auditors present audit reports to the management office of the auditor general. After reviewing and arriving at consensus with auditors, the management dispatches the result to regional council, finance bureau and regional administrations. If the finding holds harsh violation of financial procedures, office of the auditor general has the right to call policy for investigations or report to ethics and anti-corruption commission of the region for immediate action up on the report (SNNPRS, 2004).

The responsibilities and mandate of office of the auditor general will not end with reporting the audit finding to the legislative body; it also has role to follow-up its implementations. For instance, during the fiscal year 2011 to 2014 the office has accepted and dispatched 1,289 financial and performance audit report to the law making organs for correction taking and decision-making. However, the report of OAG shows the existence of various problems in the implementation of dispatched audit reports (SNNPRS, 2014).

The main problems disclosed in the office report are fraudulent financial statements, misappropriation of assets, and ineffective utilization of public resources. Regardless of these problems, the manner of follow up of the audited entities is not this much strong. Since follow up of concerned bodies is not as strong as expected, most of their financial statements are not free from errors or the same audit report is issued from year to year for the same entity. Furthermore, the audit reports were put on shelves rather than taking the necessary adjustment based on the audit findings and their recommendations (SNNPRS, 2014).

Despite of these problems, no adequate assessment has been made on audit finding implementation in the region public offices. This case study undertook detail assessment on level of audit findings implementation and causes of not implementing audit findings on time in public offices.

1.3. Objectives of the Study

The general objective of this case study was assessing implementation of audit findings dispatched by office of the auditor general in Southern Nations, Nationalities and Peoples' Regional State (SNNPRS) public offices. Specifically, the case study was attempted to:

- Assess the extent of audit findings implementation in the region.
- Explore causes of auditee non-compliance and lack of audit findings implementation.
- Detect the consequences of lack of audit findings implementation in public offices of the region.
- Explore the common weakness of audit report implementation follow up mechanisms in the region.

1.4. The Research Questions

The case study was intended to solve the following research questions.

- What is the extent of audit findings implementation in selected public entities of the region?
- What are the causes of not implementing audit findings in public offices?
- What are the consequences of absence of audit findings implementation?
- What are the weaknesses of concerned bodies in audit finding implementation follow up?

1.5. Significance of the Study

This study was conducted to make assessment on implementation of audit findings in public offices. The study's outcomes have three important significances. First, the conclusions would help to understand the extent of auditing findings implementation in public offices. Second, by exploring causes and consequences of lack of audit findings implementation, it indicates the direction for taking corrective actions. Finally, the study's outcomes would contribute to the literature by developing a conceptual understanding of audit finding implementation.

2. Related Literature Review

Audit forms an indispensable part of the financial system and is one of the important organs necessary to ensure sound functioning of financial and operational activities. It is main instrument used to secure and promote accountability and integrity of financial management operations in every organization (Eze N., 2016; MOFED, 2013; IIA, 2012). The primary functions of audit are verifying the accuracy and completeness of accounts related with revenue collection, expenditures authorization, and complete and fair presentation of financial transactions. This is why auditing is now viewed as a cornerstone of good public sector governance (IIA, 2012).

An audit opinion is expressed on audited financial and/or performance statements through audit report. An audit report is a written opinion of an auditor regarding the correctness and fairness of an entity's financial and performance statements. It is required that an auditor states its opinion in the view of generally accepted accounting principles have been followed or not. However, simply expressing opinion on audited financial and performance statements does not grant the complete achievement of audit goals. These audit functions would be achieved only when auditing reports are implemented in organization. Lack of auditing practices (Eze N., 2016) and audit findings implementation diminish management accountability in public sectors. For effective achievement of audit functions, management support and auditor's opinion implementation pay the great role (Mihret and Yismaw, 2007).

3. Research Design and Methodology

According to (Tarekegn T., 2015) ..."public sectors in Ethiopia are undertaking a far-reaching economic plan and policy to ensure sustainable and equitable economic development of the country. In the country, public sectors are the major vehicle for economic development and macroeconomic stability since they are engaged on various economic activities" However, each public sector meets their goals, if effective and efficient financial operations exist in the sectors. The existence of effective financial operations in public sectors is assured through auditors' investigation and opinions. On the other hand, it requires auditee compliance with auditors' opinions and their complete implementation to meet the ultimate goal of auditors' opinions. The auditor's opinion or report should be implemented on time to give its fruit.

All public auditors currently working and government offices operating in the region were the target population of this case study. Primary data was collected using three points of Likert Scale type questionnaire from 103 purposively selected public sectors and auditors. For the purpose of triangulating and keep the reliability of data, all data were collected from both auditors and auditee (clients). Here the questionnaire has two major sections. The first section of the questionnaire focuses on demographic information of respondents. The second section of the questionnaire was designed in order to obtain necessary data related with four important issues (objectives) of the study. The first issue focuses on level of audit report implementation in public sectors. The second issue was concerned with causes of lack of audit report implementation in public offices. The third and final issues were focused on consequences of lack of audit report implementation, and common weakness of office of the auditor general and other concerned bodies in audit report implementation follow up respectively. Each item of the questionnaire has three points of scale (such that 1 = disagree, 2 = neutral and 3 = agree) except respondents' demographic information section.

4. Research Findings: Analysis and Discussion

The collected data were analyzed using simple descriptive statistics through percentage and presented in table. All distributed questionnaires were collected from the respondents and used in the analysis. The analysis and discussion were presented in four sections as follows.

4.2.1. Respondent's Demographic Information Analysis

From total respondents, $n = 26$ (25%) were females and $n = 77$ (75%) were males. Ratio of female participation in the study as well as on employment position was very less than ratio of males. Majority of the respondent's age category found between 30 to 39 years and unfortunately, there were no respondents above 60 years indicating most of respondents were in their adult age. Regarding to respondent's education status, most of respondents have bachelor's degree $n = 93$, (90.3%) followed by diploma $n = 15$, (5%), and other respondents were masters degree and certificate holders. Finally, most respondents have 6-10 years work experience in public sectors, $n = 72$ (70%).

4.2.2. Level of Audit Report Implementation in Public Offices

In order to assess the level of audit report implementation in public sectors, seven response items were presented to respondents. The responses obtained from respondents were expressed in percentage for respective scale of each item as presented in table-1.

Table 1: Level of Audit Report Implementation

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Each audit report is frequently implemented in my office.	9	9	5	5	89	86
2. The audit report implementation is adequate.	10	10	0	0	93	90
3. If audit reports were properly implemented, they can bring the expected change on my office.	90	87	1	1	12	12
4. The implementation of audit report on appropriate time has its own value on public resource utilization of the office.	91	88	3	3	9	9
5. Lack of audit report implementation will enhance illegal action in public offices.	89	86	2	2	12	12
6. Implementation of audit report reduces errors and frauds in public offices.	88	85	5	5	10	10
7. Implementation of audit report increases the moral of the auditors and auditee.	93	90	2	2	8	8

The above table shows the percentage response of respondents for corresponding seven items. As the result reflects, majority of the respondents (n = 89, 86%) were not agree with the continuous implementation of audit reports in their offices. This shows that most audit reports are not implemented in public offices. Auditors simply waste their time and effort on auditing financial and operational aspects with no meeting the ultimate goal of auditing. Auditing gives the expected fruit if its findings get implementation. The ultimate goal of audit function cannot be achieved without implementing audit report. Audit report implementation is still not adequate in public offices. Respondents were not satisfied with the adequacy of audit report implementation (n = 93, 90%) in their offices. Regardless of audit report implementation, the respondents were well informed about the benefits of audit reports. Implementing audit report has multi dimension advantages to an office. Accordingly, appropriate audit report implementation can bring the expected change or improvement on management operations of an organization (n = 90, 87%). In addition, it can contribute to proper utilization of public resources (n = 91, 88%), minimize illegal financial or operational acts (n = 89, 86%), reduces the possibility of committing errors or frauds (n = 88, 85%) and motivate auditors and auditee (n = 93, 90%). To the contrary, absence of audit reports implementation in organizations, takes way these benefits of auditing.

4.2.3. Causes of Lack of Audit Report Implementation in Public Offices

In order to investigate the main causes for not implementing audit reports in public offices, eight items were presented to respondents. Respondents' opinion for each item was expressed in percentage as provided in table-2. The major factors obstructing audited entities not to implement audit reports are lack of interest on audit reports (n = 87, 84%); lack of coordination among concerned bodies to implement audit reports (n = 82, 80%); weakness in audit report implementation follow up (n = 89, 86%); delay of audit report presentation (n = 91, 88%); weakness in enforcement of policy and law (n = 91, 88%), and absence of good attention for audit reports (n = 89, 86%). However, the good news is that lack of knowledge how to make necessary adjustments (n = 56, 64%) and quality of audit reports in the offices are not the main causes for not implementing audit reports. It is not surprising that management of public offices do not give due attention for audit reports implementation. This is because the consequences of fraudulent financial or operational practices cannot be known in short time. It may take two to five years to know one of the causes of bankruptcy or ineffectiveness of an organization was not to implement audit findings. It kills organization after long time cumulative effects. They do not feel about it today. Therefore, they delay to take corrective measures soon. These are the major reasons for lack of management attention and interest to audit reports on time.

Table-2: Causes for Not-implementing Audit Reports in Public Offices

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Lack of interest on audit report	87	84	4	4	12	12
2. Lack of integrated effort of concerned body.	82	80	4	4	17	16
3. Weakness in follow up by the audit office.	89	86	6	6	8	8
4. Due to delay of audit report.	91	88	4	4	8	8
5. Lack of knowledge on how to take adjustments	43	42	4	4	56	64
6. Weakness in enforcement of policy and law	91	88	4	4	8	8
7. Lack of attentions by council and concerned body	89	86	4	4	10	10
8. Lack of Quality of Audit Report	8	8	4	4	91	88

4.2.4. The Consequences of Lack of Audit Report Implementation in Public Offices

After making assessment on level of audit report implementation and causes of not implementing audit report in public offices, we are interested to know the outcomes of not implementing audit reports in entities. To explore the consequences of not timely implementing audit reports in public offices, five response items were provided to respondents. Respondents' response for each item was presented in table-3 with corresponding percentage. The first consequence of not implementing audit reports in public sectors is fraudulent financial statement. Most respondents (n = 89, 86%) believe that weak audit report implementation leads to false and unfair financial statements presentation. Fraudulent financial statements are those financial reports do not present fair or correct financial information of particular entity. In absence of audit report implementation, financial statements are not prepared in accordance with acceptable accounting principles, practices and procedures or rules of the entity. Delay in economy development due to wastages of public treasury is the other consequences of not implementing audit report on time in public sectors (n = 89, 86%). As a result, the ruling body or management lacks public trust from society (n = 78, 76%). On the other hand, weak audit reports implementation opens a way for corruption and criminal acts (n = 82, 80%) which contributes to under economy growth of a country.

Table-3: Consequences of Lack of Audit Reports Implementation in Public Offices

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Fraudulent Financial Statements	89	86	4	4	10	10
2. Delays economy development and promote wastages of public treasury.	89	86	4	4	10	10
3. Loss of community trust in ruling body	78	76	4	4	21	20
4. Increases corruption and encourage criminal acts	82	80	6	6	15	14
5. Under developed economy	82	80	6	6	15	14

4.2.5. Common Weakness of Office of the Auditor General and Other Concerned Bodies in Audit Report Implementation Follow up.

The final discussion and analysis section of this case study was focuses on common weakness of auditors' offices and other concerned bodies in audit report implementation follow up procedures. In order to investigate some common weakness in audit report implementation follow up performance of office of auditors and other concerned bodies, six response items were presented to respondents. Table-4 presented the corresponding respondents' opinion proportion for each item. The very big weakness of auditor offices in audit report implementation follow up is the absence of coordination among offices. Most respondents (n = 85, 83%) were agreed on lack of coordination with audit offices in audit report implementation follow up. In addition, audited entities have biased view against audit reports (n = 85, 83%). Sometimes, auditors are viewed by clients as default finders rather than problem solvers. As a result auditee lacks confidence on audit reports (n = 62, 60%) and delays in action taking or decision-making (n = 81, 79%). Lack of responsibility and commitment is the other weakness in audit report implementation follow up (n = 89, 86%). Most public entities do not understand audit report implementation is part of their responsibilities. Due to this, they lacked commitment for implementing audit reports in their offices. In general, absence of coordination among offices, biased view against audit reports, lack of confidence on audit reports, lack of immediate decision-making, and absence of responsibility and commitment are the common weaknesses of offices of auditor in audit report implementation follow up processes.

Table-4: Weakness of Office of the Auditor General and Other Concerned Bodies in Audit Report Implementation Follow up.

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Lack of coordination with audit offices.	85	83	1	1	16	16
2. Auditee biased outlook on audit report.	85	83	3	3	15	15
3. Lack of confidence in audit report.	62	60	2	2	39	38
4. Delay in action taking and decision making by the auditee.	81	79	3	3	19	18
5. Actions taken and decisions made are not promising.	84	81	3	3	16	16
6. Lack of responsibility and commitments.	89	86	7	7	7	7

5. Conclusions

The following conclusions were drawn from the findings of the case study. First, even though audited entities recognize the advantages of implementing audit findings, there is no frequent practice of audit findings implementation in the region public offices. Second, the major causes for not implementing audit findings in the region public offices are lack of interest for audit report; absence of integrated effort to implement audit reports; weakness in follow up; and delay in audit report presentation to audited entities. Third, weak audit report implementation leads to unfair and false financial and operational statement presentation; promoted public treasury wastage; result in loss of public trust; and opens a way for corruption and criminal acts. Finally, absence of coordination, auditee biased outlook for audit reports, lack of confidence in audit report, delay in decision making, and lack of responsibility and commitment are the common weaknesses of audit offices and concerned bodies in audit findings implementation follow up procedures.

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