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COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
MASTER OF SCIENCE IN ACCOUNTING

**THE IMPACT OF EXTERNAL AUDIT ON THE FINANCIAL
MANAGEMENT IN PUBLIC ORGANIZATIONS: A CASE STUDY OF
RWANDA DEVELOPMENT BOARD**

A thesis submitted to the Faculty of Economics and Management in partial fulfillment of the requirements for the award of the degree of Master of Science in accounting by the University of Rwanda

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DECLARATION

I, **UMURERWA Denyse**, declare that this dissertation is my original work and has not been published and/or submitted for any award in any other university. Any errors and omissions in this work are entirely mine.

Signed

UMURERWA Denyse

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Date:

DEDICATION

To Almighty God,

To Murenzi Ismael, my Husband

To Murenzi Brune and Murenzi Williamson, my lovely children

I dedicate this paper.

ACKNOWLEDGEMENT

My heartfelt and deep thank goes to the almighty God for his protection during my studies.

Without Him I couldn't accomplish my studies.

My deeply thanks go to my family especially my husband and my mother for their financial and moral support that they would always give me.

I extremely wish to extend my sincere gratitude to my friends, colleagues and classmates in one way or the other they make my time enjoyable. I also thank all who contributed to my academic success that are not mentioned in this work acknowledgement. Your contribution is valuable.

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LIST OF ACRONYMS AND ABBREVIATIONS

ANOVA	: Analysis of Variance
CAPMER	: Centre for Support to Small and Medium Enterprises
GAAP	: Generally Accepted Accounting Principles
ICT	: Information Communication Technology
IFRS	: International Financial Reporting Standards
IAS	: International Accounting Standards
ICPAR	: Institute of Certified Public Accountants in Rwanda
NGOs	: Non-Governmental Organizations
NAS	: Non Audit Service
NUR	: National University of Rwanda
OAG	: Office of Auditor General
ORTPN	: Rwanda Office of Tourism and National Parks
RCRSA	: Rwanda Commercial Registration Services Agency
RDB	: Rwanda Development Board
RIEPA	: Rwanda Investment and Export Promotion Agency
RITA	: Rwanda Information Technology Agency
UR	: University of Rwanda

ABSTRACT

The study is on Impact of External Audit on the Financial Management in Public Organizations, using a case of Rwanda Development Board. The case study method was chosen to provide an in-depth investigation of the RDB's auditing practices as a fair representative of public organizations in Rwanda. Purposive sampling method was utilized to select sample units as well as stratified random sampling technique and census to select respondents from each sample unit. Research data was collected using observation, review of literatures and interview aided by questionnaire that was pilot tested to ensure reliability and validity of the data. Data collected was, summarized, coded and quantitatively analyzed to compute descriptive statistics and presented in form of tables, frequencies, percentages, graphs and charts. It sought to ascertain the contributions of external audit to efficient financial management in public organizations and determine whether or not external auditors exercise professional ethics and competences while auditing public organizations. Findings revealed that external auditor play a very important role in ensuring that the RDB complies with financial reporting standards and guidelines. It also established that internal auditors do not fully cooperate with external auditors; they delay of financial statement and other requisite support among others.

Further analysis confirmed that auditors' compliance to the professional ethics enhances the reliability of the published financial report. The study findings will benefit government and financial managers with regard to designing policies to streamline the external audit in public organizations. The findings of this study put RDB and other public firms on toes to ensure that proper records are kept. Strict measures should be put in place to check record keeping techniques and procedures in public organizations in Rwanda. The researcher recommends further studies on the causes of conflicts surrounding external auditors and internal auditors in public institutions and impacts of these conflicts on reliability of published financial reports. A further study is recommended to assess the perception of managers on external auditors.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

1.1.1 Financial Management

Financial management is the application of general management principles to financial resources of the enterprise. Financial Management entails planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It entails making investment decisions, financial decisions and dividend decisions. Financial management is concerned with procurement, allocation and control of financial resources of a concern. Importance of financial management is to ensure regular and adequate supply of funds to the concern as well as adequate returns to the shareholders and optimum utilization of organizational funds (Steven, 2005). It aids in planning a sound capital structure and ensures safety on investment.

Public financial management is an essential part of the governance process. Public financial management includes resource mobilization, prioritization of programs, the budgetary process, efficient management of resources and exercising controls. It entails the collection of sufficient resources from the economy in an appropriate manner along with allocating and use of these resources efficiently and effectively constitutes good financial management. Resource generation, resource allocation and expenditure management or resource utilization are the essential components of a public financial management system (Herrington, 2000).

The purpose of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements show the results of the stewardship of management. It is through financial statement that management display accountability of resources entrusted to them. Financial management is the term used to encompass all the activities within an organization that are concerned with the use of resources that have a financial impact (Van, 2002).

1.1.2 External Audit

External audit is a periodic examination of books of account and records of an entity conducted by an independent third party (auditor) to ensure that they have been properly maintained, are accurate and comply with principles and accounting standards, and give a true and fair view of the financial state of the organization. The external audit plays a vital role for better performance of public institutions by advising the management and internal control about their weaknesses. The independence of external auditors is crucial for effective auditing of public entity's financial controls and statements. Any relationship between the external auditors and the entity, other than retention for the audit itself, must be disclosed in the external Auditor's reports (Koo and Sim, 1999).

1.1.3 Public organizations

Public institutions play a critical role in the society through execution of government 'policies to promote national economic, social and other developmental goals. External audit is one of the key instruments used to achieve better financial management and accountability in the use of public funds. External audit in public institutions entails a review of the budget, the allocation of funds and the actual expenses to ensure the budgeted revenues and expenses were correctly compiled and used. The objective is to promote the proper and effective use of public funds, the development of good financial management (Lowe and Pany, 1995).

External audit add credibility to management's inherent assertions included in the financial statements which is achieved by gathering and evaluating audit evidence. Emphasis on internal control review has brought about development of additional audit objectives in the evaluation of internal controls. The auditors are placed in a position that enables them to suggest improvement in the clients accounting system and controls as well as to offer ideas for improving financial planning, tax planning and clerical efficiency (Koo and Sim, 1999).

The foremost importance of auditing is to ensure accuracy and correctness of the accounting to a great extent. Audit is an easy means to ascertain whether the undertaking is in fact maintaining the registers and books of account as required under the law. Employees in charge of the maintenance of books of account and other records are regular, careful and systematic in their work. Errors and frauds committed by employees of the business can be detected promptly. The

knowledge of an impending audit acts as a moral check on the employees who may otherwise be tempted to commit embezzlement (Lowe and Pany, 1995).

1.2 Statement of the problem

Internal auditing and internal control is of a big importance in the financial management of public organizations because it shows how public funds have been used and determine whether financial statements show a true and fair view, it also shows a true position of the organization. These institutions are financially mismanaged and continues discredit the value of external auditors. Furthermore, financial managers in public institutions consider that the work performed by internal controls and internal auditors is sufficient enough to ensure good financial management. They consider external auditors as investigators who are charged to discover errors and frauds only, and this creates misunderstanding between the auditors and colleagues or officers within the organization.

Despite internal control and internal audit, public funds are not efficiently managed hence the need to have independent body to audit books of accounts. The use of external auditors is believed to have improved financial management in public organizations. Despite the many benefit, there is limited empirical literature on how they impacts financial management in public institutions. This is because most empirical literatures are concentrated on external audit in private firms leaving out public institutions. This study moves to fill this empirical gap by assessing the impact of external audit on the financial management in public organizations specifically in Rwanda Development Board (RDB).

1.3 Objectives of the study

1.3.1 General Objective

The general objective of the study is to outline the impact of external audit on the financial management in public organizations.

1.3.2 Specific objectives

1. Ascertain the contributions of external audit to efficient financial management in public organizations.
2. Determine whether or not external auditors exercise professional ethics and competences while auditing public organizations.
3. Explore various challenges encountered by external auditors while auditing public organizations

1.4 Research questions and Hypothesis

1.4.1 Research Questions

The following research questions were satisfactorily answered by this study

1. How does external auditing ensure compliance to financial reporting standards and guidelines in public organizations?
2. Do the external auditors act professionally and competently when auditing public institutions?
3. What challenges hinder external auditors in performing their duties in public institutions?

1.4.2 Research Hypothesis

The study tested the following hypothesis

There is strong relationship between efficient financial management in public organizations and external auditing

This hypothesis suggests that a positive correlation exists between items measuring efficient financial management in public institutions and external auditing. The relationship between the two variables namely financial management and external auditing were evaluated using analysis of variance

There is no correlation between auditor's compliance to professional ethics and reliability of published financial reports.

This hypothesis proposes that a positive relationship will exist between the scales representing auditor's compliance with professional ethics and reliability of published financial reports of public organizations. Analysis of this relationship were accomplished by applying analysis of variance

1.5 Scope of the study

The research focuses on analyzing the impact of external audit on the public financial management in public organizations. This research will be carried out in RDB for a period of two (2) years from 2010-2011 and 2011-2012.

1.6 Significance of the study

This study is aimed at finding out the impact of external audit in enhancing the reliability of financial statements. Secondly, this study enables senior managers, managers, internal auditors and finance staff of public organizations to understand their responsibilities in implementing external auditors' recommendations and ensure better collaboration with auditors

Thus, the study is of importance to RDB as it will benefit from the recommendations provided by the researcher for future effective performance and overcoming the challenges of mismanagement.

Finally, this study also serves as literature for further studies in the future.

1.7 Structure of the Study

The study is organized into five chapters as follows:

Chapter 1: It comprises an introduction presenting the background of the study, statement of the problem, objectives of the study, research questions, hypothesis, significance of the study, scope of the study and structure of the study.

Chapter 2: The Chapter will focus on literature review.

Chapter 3: This Consists of the research methodology.

Chapter 4: The chapter will focus on presentations and analysis of Data collected from the field.

Chapter 5: Summary, Conclusions, and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The review aims to provide contextual and theoretical grounds for the study. Selection of literatures for inclusion in the study will follow systematic reviews for the studies published in international review journals, books and other literatures in English language. In this chapter, both theoretical and empirical literature on auditing is reviewed. These include literature on origin of auditing, conflict theory of auditing, independence of auditing and importance of auditing.

2.2 Theoretical Literature

2.2.1 Origin of Auditing

Auditing is a critical investigation to arrive at sound conclusions about accounting for the financial and operating aspects of an economic organization. A critical investigation implies an orderly accumulation of evidence. An auditor's findings must be communicated to be useful, preferably in a written report. The American Accounting Association committee on Basic Auditing Concepts defined auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain degree of correspondence between those assertions and established criteria and communicating the results to interested users. As a systematic process, auditing is a logical purposeful and structured approach to decision making; it is not an unplanned, haphazardly process.

Objectively obtaining and evaluating evidence: Auditing involves the collection of evidence; this evidence represents information that will affect the auditor's decisions process. Although the evidence in itself may not be conclusive in nature the process of collecting and evaluating them must be as objective as possible.

Assertions about economic actions and events: A basic component of the auditing process is the collection of evidence regarding assertions about economic actions and events. These assertions often relates to the financial statements. For example when conducting a financial statement the auditor is given financial information and financial statement by the auditee. These financial

statements represent the auditee's assertions about economic action and event and include not only the financial statements but also the accounting information system and accounting process or controls.

The degree of correspondence between assertions and established criteria: While auditing financial statements the auditor's objective is to determine whether the auditee's assertions correspond to the established criteria which typically are referred to as generally accepted accounting principles or GAAP. In countless situation however, the auditor examines assertions other than those contained in the financial statements (IFAC 2001).

Communicating results to interested users: If the audit is to have any value, the auditor's opinion as to the reliability of the assertions must be communicated to the users of the financial statements. These users include bankers, creditors, shareholders and owners and government. Communication of Auditors' assurance on information is referred to as attestation or the attest function. Auditing in its broadest context is an attestations service.

2.2.2 Role Conflict Theory in Auditing

One relevant theoretical framework that was used to guide a research paper by Koo and Sim is role conflict theory. Role conflict theory is based on the following assumptions: the auditor is required to monitor the client's financial statements and the public expects the auditor to faithfully carry out that role (Koo and Sim, 1999). The auditor has to serve two opposing interests, clients companies and the general public which leads to conflicts. Firstly, there exist conflicts between a particular role and the individual's values – person - role conflict. Secondly, there exists intra – sender role conflict, which concerns multiple roles being allocated to an individual. Thirdly, role – overloaded conflict is where many roles are imposed on the individual, considering his or her capacity to fulfill them in light of available resources. Fourthly, Koo and Sim (1999, p 207) stated that: inter – sender role conflict, appearing through mutually opposing expectations of role, conflicting policies and needs of others, and incompatible criteria. The most important conflict for the auditor is inter – sender role conflict. This is where the auditor is expected to satisfy both the needs of the client management and the third party users. Third party users expect the auditor to find and report all problems with the financial statements while management wants the auditor to ignore financial statements manipulation (Koo and Sim, 1999). Thus, at times, the auditor needs to choose from these conflicting needs.

The auditor's role conflict may negatively impact the auditor's independence and the ability to conduct a just audit (Schultz 1974). If the auditor tries to be adamantly ethical in a situation of conflict, management may seek to replace the auditor. As a result, the auditor may buckle under management's pressure, resulting in a compromise of auditor independence. Three major conflicts of interest, which worked against auditor independence, were advanced by Goldman and Barley (1974). These include conflicts between the auditor's economic motives and audit criteria. Thus, auditor independence may be compromised when conflicting interests arise as to what is the auditor's role (Moore, Tetlock, Tanlu and Bazerman 2003).

2.2.3 Financial Management

Financial management is the application of general management principles to financial resources of the enterprise. Financial Management entails planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise (Steven, 2005). It entails making investment decisions, financial decisions and dividend decisions. The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives of financial management includes ensuring regular and adequate supply of funds to the concern and adequate returns to shareholders. It also ensures that funds are utilized optimally and in maximum possible way at least possible cost. It further ensures safety on investment, i.e., funds should be invested in safe ventures so that adequate rate of return can be achieved and to a sound capital structure that balance between debt and equity capital.

2.2.4 Public organizations

Public organizations play major role in the society as they can implement government 'policies in order to promote national economic, social and other developmental goals. For achieving better accountability for the use of public funds, an external audit is one of the key instruments. Hence, for public institutions, an external audit will include a review of the budget, the allocation of funds and the actual expenses to ensure the budgeted revenues and expenses were correctly compiled and used. This external audit in public sector has objective to promote the proper and

effective use of public funds, the development of good financial management even if there is internal control and audit.

2.2.5 Financial Management in Public Organizations

Just as managing finances is a critical function of management in any organization, similarly public financial management is an essential part of the governance process. Public financial management includes resource mobilization, prioritization of programmes, the budgetary process, efficient management of resources and exercising controls. Rising aspirations of people are placing more demands on financial resources. At the same time, the emphasis of the citizenry is on value for money, thus making public finance management increasingly vital. It entails the collection of sufficient resources from the economy in an appropriate manner along with allocating and use of these resources efficiently and effectively constitutes good financial management. Resource generation, resource allocation and expenditure management or resource utilization) are the essential components of a public financial management system (Pany and Reckers 1988).

Functions of Financial Management:

Estimation of capital requirements: A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.

Determination of capital composition: Once the estimation has been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.

Choice of sources of funds: For additional funds to be procured, a company has many choices such as issue of shares and debentures, loans to be taken from banks and financial institutions, public deposits to be drawn like in form of bonds. Choice of factor will depend on relative merits and demerits of each source and period of financing.

Investment of funds: The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.

Disposal of surplus: The net profits decisions have to be made by the finance manager. This can be done in two ways:

Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.

Retained profits - The volume has to be decided which will depend upon expansion, innovational, diversification plans of the company.

Management of cash: Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc.

Financial controls: The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, and cost and profit control

2.3 Review of Empirical literature

2.3.1 Independence of Auditors

Independence is critically important to an auditor as it is regarded as being one of the fundamental principles underlying the auditor's work. The financial markets must have confidence in the integrity and objective of auditors. Without definite independence, audits have little value. Recently, regulators and public have been concerned about auditor independence in the current audit environment where severe audits failures like Enron and WorldCom, have emerged. Several regulatory bodies have recently established new independence standards, since the general setting, within which auditor independence perceptions are formed, is subject to continuous change (IFAC 2001; ICAEW 2001).

Although independence of auditors is good for auditing purposes, critical issue is how users perceive auditor's independence and whether it adversely affects or erodes the public confidence in auditors. Professional accounting bodies have pointed out areas where independence might be compromised such as cases where there are unpaid fees, personal relationships, conflicts of

interest and high financial involvement (ICAEW, 2001). It is therefore important for the regulators and standards setters to establish and improve public's perception of auditing firms.

Independence is a function of the auditor's mental attitude, and one must look at the various factors which influence the auditor's behavior to determine whether his psychological makeup allows him to be objective, honest and independent. Thus it is necessary to consider the position advanced by behaviorists. ICAEW (2001) and IFAC (2001) identified five main threats to independence as being self-interest, self-review, advocacy, familiarity or trust, and intimidation threats. Beattie et al (1999, p. 71) identified four principal factors believed to impact auditor independence as economic dependence of the auditor on the auditee, competition within the external audit market, the provision of NAS by the auditor, and the degree of laxity of the regulatory framework.

A study by Gul (1989) and Beattie et al (1999) went further to identify the principal enhancement factors of auditor's independence. They found that the principal threat factors to independence are related to economic dependence and non-audit service (NAS) provision. The principal enhancement factors of auditor's independence are related to regulatory changes such as the presence of an audit committee, the risk of referral to the financial Reporting Review Panel and the risk to the audit firm of loss of Registered Auditor Status.

Auditor independence has for many years been seen as a crucial aspect of the credibility of the external audit function and as a monitoring device in financial management in public institutions. The external system of audit, with its final product, the audit opinion, adds credibility to the financial statements so that users can rely on the information presented and, as a result, the entire system of financial reporting is enhanced. As the auditor is assumed to have no incentive associated with financial statements to be dishonest, he/she is presumed to be independent of both the company being audited and of its managers (Knapp 1985).

Philosophically, auditors are supposed to serve society. There is a "social contact" between the auditing profession and society, which establishes the reasons for the auditor to remain independent. In too many cases, the auditors are forming an opinion on truth and fairness based on management assertions of the number included in the financial reports' not based on evidence

that can be independently corroborated. Power (1997) built upon this to suggest that auditors need to have informational and epistemic independence. The former aspect refers to the need to have an independent base of audit knowledge (Power 1997). Jeppesen develops the work of Power (1997) on epistemic independence to suggest that, with the rise of new business process oriented audit procedures, this ability to be epistemically independent is being lost as audit and consultancy become more intertwined (Jeppesen, 1998).

2.3.2 Impact of Auditing in Public Organizations

External auditing strengthens the credibility to management's inherent assertions included in the financial statements which is achieved by gathering and evaluating audit evidence (Beattie, Fearnley and Brandt 2001). Several improvements have been made to improve internal auditing. However, internal auditors are believed to be much more vulnerable to manipulation by management than external auditors. Emphasis on internal control review has brought about development of additional audit objectives in the evaluation of internal controls. Internal auditors are placed in a position that enables them to suggest improvement in the clients accounting system and controls as well as to offer ideas for improving financial planning, tax planning and clerical efficiency (Beattie, Fearnley and Brandt 2001).

The auditor ensures that the report prepared by financial managers conforms to the contracts provisions. The auditor's verification of the financial information adds credibility to the financial report hence reducing information risks; potentially benefiting both the owner and the manager. While auditing is only one possible form of additional monitoring, the extensive presence of auditing in such situation suggests that auditing is a cost effective monitoring device (Glover and Prawtt 2004).

The foremost importance of auditing is to ensure accuracy and correctness of the accounting to a great extent. Audit is an easy means to ascertain whether the undertaking is in fact maintaining the registers and books of account as required under the law. Employees in charge of the maintenance of books of account and other records are regular, careful and systematic in their work. Errors and frauds committed by employees of the business can be detected promptly. The

knowledge of an impending audit acts as a moral check on the employees who may otherwise be tempted to commit embezzlement. It tends to keep records of the business up to date; any desired information can be obtained from the account in no time without any difficulty (Ghosh and Moon 2005).

Audited account could be used to inspire confidence among those who enter into any type of financial dealings with the business. In the case of shareholders of the company who have no hand in the actual running of the business, auditing ensures proper maintenance of the accounts and prevents the director from taking undue advantages of their positions. Loans and credit facilities can easily be obtained from banks on the basis of audited accounts which are widely regarded as reliable index of the state of affairs of the enterprise. In case a running business is proposed to be sold, purchase consideration can easily be determined on the basis of audited accounts (Glover and Prawtt 2004).

Audited accounts facilitate the determination of claims against the insurance company (Ghosh and Moon 2005). In case of a loss or damage to business property. Disputes between management may be more easily settled, for instance a partnership which has complicated profit sharing arrangements may require an independent examination of the account to ensure as far as possible an accurate assessment and divisions of those profits. An audit on behalf of a sleeping partner is highly advisable since such a person has little means of checking the account of the business and the profit attributable to him. The settlement of accounts requirement on the death or retirement of a partner are much facilitated where audited accounts form the basis upon which work is carried out.

2.4 Conclusion and Gaps

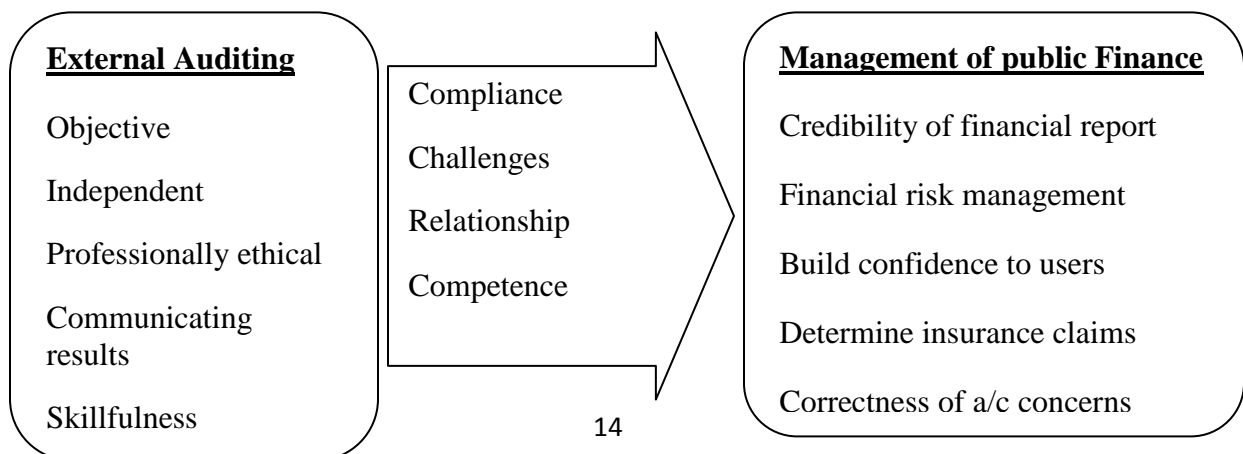
It evident from reviewed literatures that's external audit is critical in the management of public organizations. It is noted that there is adequate literature on auditing however most of them addresses auditing in private sectors as opposed to public sector. Most of auditing studies focuses on auditors' independent in carrying out their mandate in public organizations. Therefore independence of auditors is paramount in ensuring credibility of findings. However,

independence of auditors is subject to various threats that should be addressed by regulators and standards setters for purposes of improving public’s perception of auditing firms. Several studies have suggested ways to overcome such threats (Gul, 1989) and Beattie et al, 1999). Although independence of auditors is good for auditing purposes, critical issue is how users perceive auditor’s independence. It is clear that internal auditing is used to evaluate internal controls. They are placed in a position that enables them to suggest improvement in the clients accounting system and controls as well as to offer ideas for improving financial planning, tax planning and clerical efficiency. They are however susceptible to management manipulation hence the need for external auditing to add credibility to financial reports.

However, literature on the contributions of external audit to efficient management of public finance is very limited as well as various challenges faced by external auditors. Available literatures from developing countries identify several contributions of external audit to management to financial management. They include adding credibility to financial reports of public firms, ensuring accuracy and correctness of the accounting and facilitating determination of claims against the insurance company among others. There are no conclusive studies on whether these findings apply to public firms in developing nations like Rwanda which this study sought to determine. Generally, there are few empirical studies on external auditing in public organizations in developing countries. This study sought to address this empirical gap by examining the impact of externals audit to financial management in public institutions of Rwanda.

Figure 2.1: Schematic Presentation of Theoretical Frame work

Independent Variable intervening variable Dependent variable



CHAPTER THREE

METHODOLOGY

As the third chapter of the research work, the methodology sought to define and explain the tools and procedures used for the data collection, how the research is designed, population, sample, and method of analysis.

3.1 Research Design

Research design refers to the selected general strategy for investigating various elements of the research in a coherent and systematic way to address research problem. It is a blue print followed by the researcher to collect measure and analyze data (Silverman, 2011). The study used quantitative research design in which numerical data on a set of potential independent and dependent variables were collected and analyzed. Quantitative method begins with statements of theory that leads formulation of hypothesis. Then dependent variables in question (external auditing) were measured against constant independent variables. The procedures were deductive in nature, contributing to the scientific knowledge base on impacts of external audit on financial management in public organizations. The quantitative method was appropriate for determining and predicting the relationships and associations between study variables.

3.1.1 Justification

In this research, quantitative research method was used. Since the aim of the study was to determine impact of external audit on public financial management in public institutions, the researcher found it critical to use quantitative research, since it would give appropriate information that would facilitate the causation. Moreover, quantitative research was preferred because of the nature of the research; because no variable was manipulated, a correlation design was used for data analysis to make generalizations about the population from the sample. Data gathered in quantitative research exists in numerical and quantifiable form and can be easily subjected to different statistical tools.

3.2 Study Population

The units of study are internal audit and finance department in RDB and external audit firm.

RDB has eight (8) departments and ten (10) divisions all falling under the Chief Executive office, the Chief Operating Officer and the Chief Finance Officer. In these Divisions, some are support divisions under supervision of the chief Financial Officer, and this includes Finance, administration, procurement, internal audit and legal divisions. These divisions are actively involved in auditing activities within RDB. The target population for this study will be 73 workers from different divisions and departments as well the Auditor general's office.

Table 3.1: Study population

Study units	Total population	sample
Internal Audit Division	4	4
Finance Division	10	10
Administration department	14	12
Auditor General Office	28	24
Procurement department	6	5
Senior Management	11	10
Total	73	65

Source: Rwanda Development Board (RDB), 2013 and Researcher

3.3 Sample design

The sample size for this study was obtained from 65 employees from key divisions and departments in RDB and auditor general office. For getting representative sample for the study population, the researcher used a purposive sampling method to select sample units as well as stratified random sampling technique and census to select respondents from each sample unit. The rationale behind is that it is believed that purposive sampling will provide units with relevant information to auditing process and financial management in RDB. Stratified random sampling shall be used since RDB is classified under different departments and divisions.

To confirm that an adequate number of responses were received, the sample size was determined using Slovene's formula which provides the minimum sample size that is supposed to be used

from the total population that the researcher was having. By using this formula, the researcher came up with 61 as minimum respondents that can be used as the sample size from total populations of 73. Therefore, the sample of 65 was considered adequate based on Slovene's formula. The sample size was able to give accurate views on the impact of external audit on financial management in public organizations of Rwanda.

This is shown as below:

Slovene's formula

$$n = \frac{N}{1 + N(e)^2}$$

n: is the minimum sample size

N: is the population from which the sample was drawn

e: is the margin of error estimated at 5%. Substituting in the above formula, the sample was determined as $n = \frac{73}{1 + 73(0.05)^2} = \text{minimum is } 61$

The confidence level is at 95%

3.4 Data collection Procedures and Instruments

Primary data used collected through interviews and structured questionnaires to obtain data on every research question of the study. The questions were divided into two parts. The first part sought demographic information of the respondents, the second part sought information on research questions. Printed questionnaires were given out to a sampled number of study respondents. The top financial managers were subjected to interviews. This is because they were not able to find enough time to go through the questionnaires and hence one-on-one interview was ideal. The order of the study was bottom-up, starting with the lower cadre upwards confirming some emerging facts in the subsequent interviews.

3.4.1 Reliability and validity of the research instruments

The content validity was ensured through the use of valid concepts which measure the study variables. Construct validity were based on the fact that questionnaires are content valid and this was achieved through a pilot study where the researcher first tested the questionnaires with eight members from the main respondents before going into data collection. Not only that but was

based on the results from the pilot study and then the researcher was able to ascertain the reliability of the data collection tools.

The Cronbach's alpha internal consistency coefficient shall be used to estimate the reliability of each of the scales used to measure study variables. Acceptable limits of alpha are set at a minimum of .70. This standard of reliability is consistent with recommendations for research designed to make decisions affecting groups (Nunnally & Bernstein, 1994). Sample estimates of correlation close to unity in magnitude imply good correlation, while values near zero indicate little or no correlation. Analysis of variance test were conducted to test research hypothesis and significance of variables of the study.

3.5 Method of Data Analysis

The rationale here is that once questionnaires have been administered, the mass of collected raw data were systematically organized in a manner that facilitates analysis. The data from answered questionnaires were collected and checked for completeness, this involves presenting the findings in a logical and sequential way for developing conclusions. A quantitative approach to data analysis was used to interpret the data collected by means of tables and graphs to ascertain some of the answers from the respondents. The standard requirements of published financial statement were reviewed in detail and comparisons made with information and data gathered from the field to evaluate internal control systems within RDB Rwanda.

3.6 Operational Definition of Variables

External audit: This is independent variable measured by the perception of respondents on in regard to objective, independent, professionally ethical, communicating results and skillfulness of external auditors. The perceptions of respondents were measured on a four point scale with 1 = strongly agree, 2 = agree, 3 = disagree and 4 = strongly disagree.

Independent variables: The study has several independent variables namely compliance Challenges, relationship and competence of auditors measured on a four point scale with 1 = strongly agree, 2 = agree, 3 = disagree and 4 = strongly disagree.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRITATION

4.1 Introduction

This chapter provides the findings of the study on the impacts of external audit on the financial management in public organizations. It focuses mainly the data analysis and presentation of data gathered from the field. The data has been analyzed using basically table, graphs and charts. Quantitative and qualitative analysis were also used where appropriate. The research instrument was questionnaires that were filled and returned for analysis. The findings were compiled and presented for analysis and interpretation for purposes of answering research questions. The first part of the finding is on demographic characteristics of study respondents. The second part sought background information on the concepts of study and the third part presents answers to the research questions.

The Cronbach's alpha of internal consistency coefficient was used to estimate the reliability of each of the scales used to measure the impacts of external audit. Acceptable limits of alpha were set at a minimum of .70 (Nunnally & Bernstein, 1994).

4.2 Profile of organization

4.2.1 Introduction

Rwanda Development Board is a government agency created by law No 53/2008 of 02/09/2008 to fast track development activities in Rwanda through promotion of private investment, tourism sector promotion, export promotion, development of an appropriate ICT policy framework, and support to local entrepreneurs, Human capital development and efficient service delivery to business entities. RDB is a merger of former RIEPA (Rwanda Investment and Export Promotion Agency), ORTPN (Rwanda Office of Tourism and National Parks), CAPMER (Centre for Support to Small and Medium Enterprises), RITA (Rwanda Information Technology Authority), Privatization Secretariat, and RCRSA (Rwanda Commercial Registration Services Agency).

RDB's budget depends on central government subsidies supplemented by direct donor support through specific projects and internally generated revenues from various services which include;

tourism activities, administrative fees from commercial registration and intellectual property and office rental.

The significant dependence on central government budget allocation makes RDB a “budget agency” in the context of law No 37/2006 on state finances and property.

4.2.2 Vision and mission of the entity

The vision of RDB is to transform Rwanda into a dynamic global hub for business, investment, and innovation.

The mission of RDB is to fast tracking economic development in Rwanda by enabling private sector growth.

TABLE 4.1: RDB Divisions and Departments

RDB Departments & Divisions	Total Number of Employees
ICT department	25
Human Capital and Institutional Development	19
Investment promotion and implementation	43
Tourism and Conservation	31
Agriculture Development	23
Services Development	15
Asset and Business Management	17
Trade and Manufacturing	17
Procurement Division	6
Administration Division	14
Internal Audit Division	4
Finance Division	10
Legal Advisory Division	5
Public Relation Division	5
Planning Division	4
Human Resource Division	7
Strategy and competitiveness Division	5
Customer care Division	5
Total	255

Source: Rwanda Development Board (RDB), 2013 and Researcher

RDB has eight (8) departments and ten (10) divisions all falling under the Chief Executive officer, the Chief Operating Officer and the Chief Financial Officer. In these Divisions, some are support divisions under supervision of the chief Financial Officer like procurement Division, Finance and administration divisions and legal division and these are support divisions that help departments and the institution as a whole to achieve their targets. Other divisions like customer care division, strategy and competitiveness Division, planning Division, internal audit Division, public relation, human resource Divisions are working under supervision of the chief operating and chief executive office.

TABLE 4.2: Categories of group issued with questionnaires

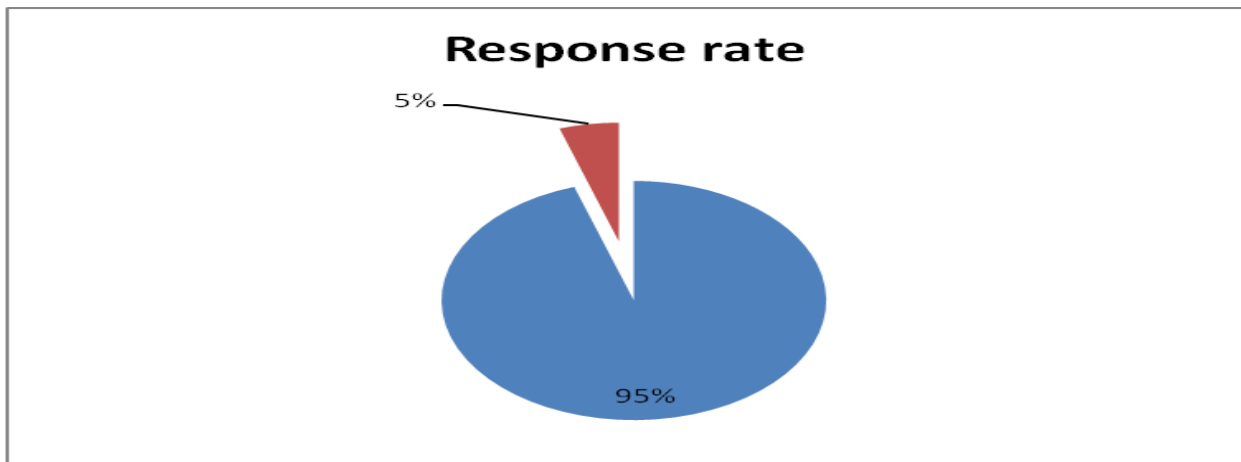
Study units	Number issued	No. of respondents	Percentage (%)
Internal Audit Division	4	4	6.1
Finance Division	10	10	15.3
Administration dep	12	11	16.9
Auditor General Office	24	23	35.3
Procurement dep	5	5	7.6
Senior Management	10	9	13.8
Total	65	62	95

Source: Survey data, 2013

Departments and divisions involved in one or another way in financial management in RDB were purposely selected and included in the survey. These are internal audit division, finance division, administrative department, procurement department and a number of senior managers tasked with overseeing financial management. In addition, external auditors from the office of auditor general who were involved in the review of financial statement were sampled and included in the survey. The targeted population for this study was 73 workers from different divisions and departments from which 65 were sampled and served with structured questionnaires.

4.2.3 Response rate

Figure 4.1: Response rate



Source: Survey data, 2013

The response rate for this study was 95 percent. This is the percentage of sample respondents used in the final analysis of the study. A researcher is expected to maximize response rate to increase credibility of research findings. The researcher considered the sample size of 65 for the study that were issued with questionnaires and 62 respondents satisfactorily answered and returned questionnaires that were used in analyzing primary data. All questionnaires were returned of which two were returned unanswered with reasons and one was returned unanswered and with no reason. The three questionnaires that were not discarded were: One from auditor general office, senior manager and administration department.

4.3 Data analysis and interpretation

4.3.1 Demographic Characteristic of the Respondents

Profile of respondents is very important as they enable the researcher to understand the type of people they are dealing with as well as the type of answers to expect from each respondent. These are described in terms of age, job designation, highest level of education attained and period in employment. The findings revealed that all respondents were either working in RDB or in Auditor general office and hence the appropriate target population with relevant information for the study.

4.3.1.1 Nature and designation

TABLE4.3: Nature and designation of respondents

Study units	Respondents	Percent
Internal Audit Division	4	6
Finance Division	10	16
Administration division	12	19
Auditor General Office	23	37
Procurement division	4	6
Senior Management	9	15
Total	62	100

Source: Survey data, 2013

All respondents that were surveyed were employees from the office of auditor general and RDB working in various departments engaged in financial management. Most respondents were from office of auditor general with 37% of study respondents followed by administration with 19% of the study respondents. The least respondents came from Finance, procurement and internal audit departments because they had a few employees in the institution.

4.3.1.2 Age of respondents

TABLE 4.4: Age of surveyed respondents

Years	Frequency	Percent
20-39	12	18
30-39	28	45
40-49	17	28
50-59	5	7
Over 60 years	0	0
Total	62	100.0

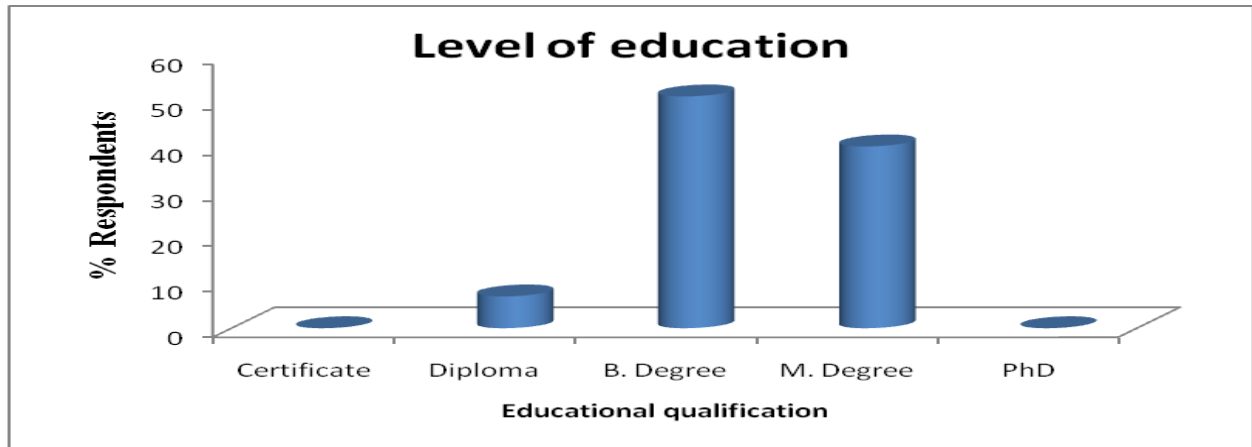
Source: survey data, 2014

The study findings showed that a majority of respondents are aged between 30-39 years with 45% and none of the respondents was aged above 60 years as shown in table below. This information is necessary in assessing whether or not the opinion of employees on auditing practice varies with the age or level of maturity. These respondents represented employees from different divisions and departments within RDB engaged in financial management and auditing.

4.3.1.3 Educational level

The level of education was necessary in assessing the knowledge of respondents which is necessary in understanding their ability to adequately respond to questionnaires. It helps to identify respondents that would require assistance to respond to study questions.

Figure 4.2: Level of Education of Respondents



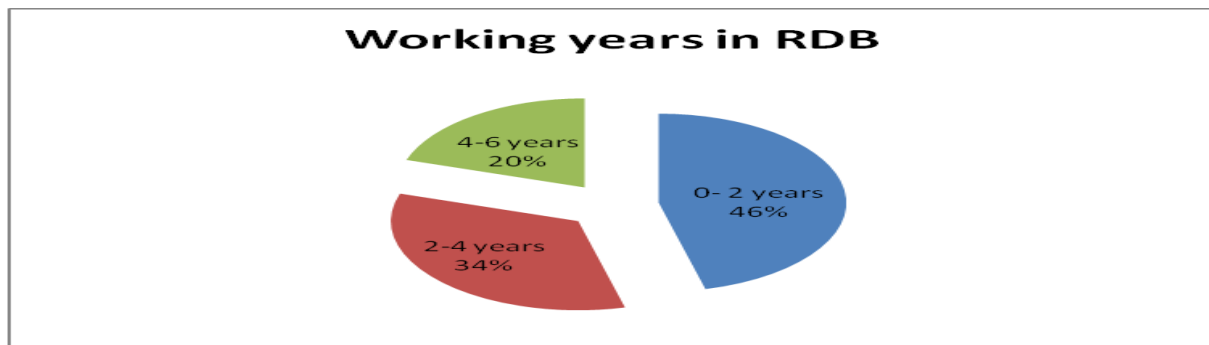
Source: Survey Data, 2013

The results showed that none had certificate, diploma holders were 7%, 51% had bachelor's degree, 40% have attained Master's Degree and 1 employee or 0.6% had PhD qualification. These are professional who are familiar with the concepts and context of the research and are better equipped to provide satisfactory responses to the research questions.

4.3.1.4 Years in RDB

The research was interested in knowing the period of service of respondents in RDB to determine their experience with the study context. It was also necessary in assessing any relationship between years in RDB service and employee knowledge of auditing practice.

Figure 4.3: Years of worked in RDB



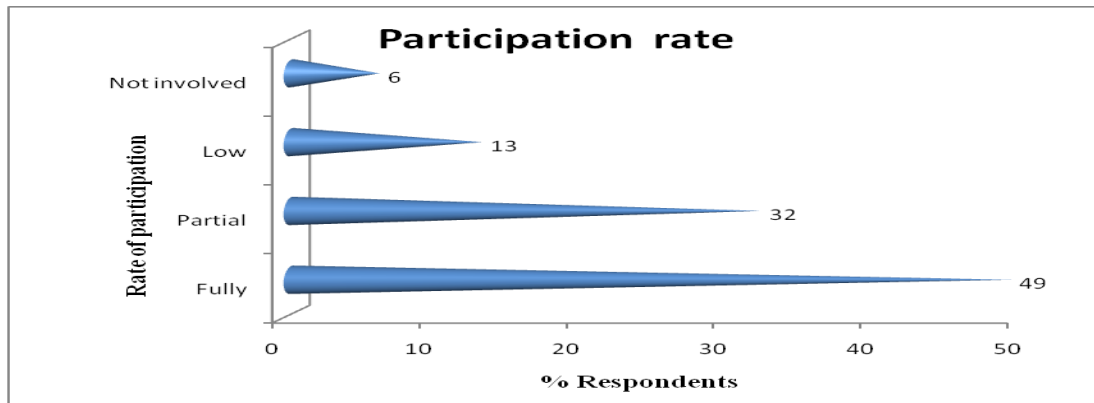
Source: Research Data, 2014

The results showed that a majority of study respondents 46% have been working in RDB for a period of 0-2 years and 34% of surveyed employees have worked for 2-4 years while 20% have

worked in the organization for between 4-6 years. Since considerable number of respondents has worked for more than a year, they gave relevant information for the study.

4.3.1.5 Respondents Participation in Auditing

Figure 4.4: Level of Participation in financial management



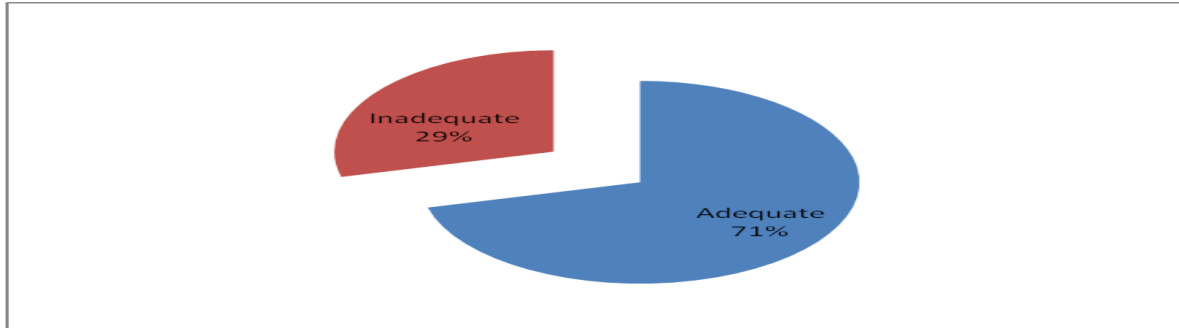
All but 6% of respondents confirmed that they actively participate in auditing within RDB. This makes majority of them best suited to provide relevant information for this study on impacts of external audit on financial management in public organization specifically in RDB. Majority of them are fully engaged in financial management activities. Survey revealed that 49% of respondents are fully involved in auditing activities within RDB whereas 32% are partially engaged 13% are engaged at a lower level and 6% respondents indicated that they are not involved in auditing activities.

4.3.2 Auditing of public organizations

4.3.2.1 Adequate accounting system

The research sought background information related to the concept of auditing in public institutions. This information was critical in assessing the knowledge of respondents in regard to topic of study to ensure credibility of the study findings.

Figure 4.5: Accounting system

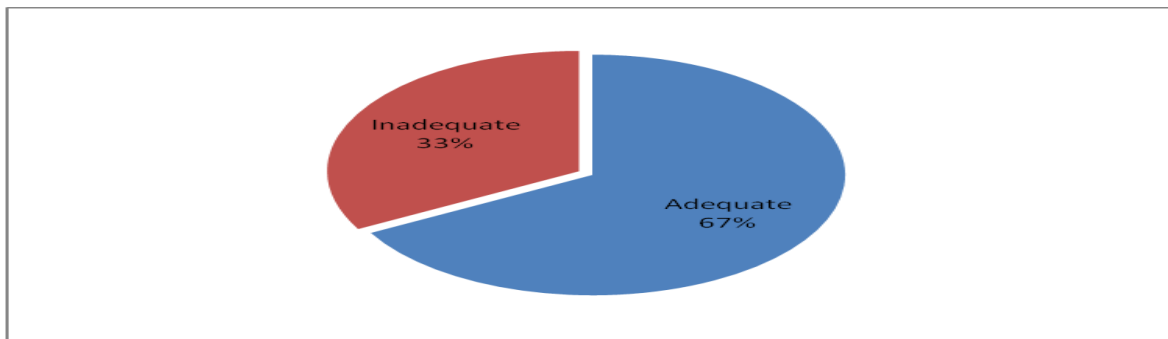


Source: Survey data, 2013

Most respondents indicated that public organization possess an adequate accounting system that properly identifies, assembles, analyzes, classifies, records and reports the financial transactions in accordance with the prescribed formats and best practice. This notion was supported by 71% of surveyed respondents from RDB and Auditor general’s office while 29% were of the contrary view that accounting system in public organizations is inadequate.

4.3.2.2 Adequate personnel

Figure 4.6: Adequate personnel



Similarly, a considerable number of respondents indicated that RDB have specialized people that assess and audit its records of accounts and checks internal financial controls. The contrary view were expressed by 33% of respondents particularly from internal audit depart who indicated that there is insufficient manpower to support auditing practice in public institutions.

4.3.2.3 Difference between auditing and accounting

Auditing and accounting are closely connected but separate activities. The difference between auditing and accounting was sought to help minimize confusion between the two terms while

answering research questions. They indicated that accounting is keeping proper books while auditing is the review and confirmation that books of accounts were properly kept in accordance with accounting standards. This means that most respondents were aware of the difference between the two terms and provided relevant information related to auditing activities in the institution.

4.3.2.4 Objectives of internal audit

The study sought to know whether or not public employees understand objectives of auditing in their organizations. Among the objectives given by respondents are ensure value for tax payers money, proper records of accounts, improving reliability of financial statements and adherence to accounting laws and standards and promoting accountability and best practices. Other indicated that internal auditors are tasked with detecting and preventing errors in financial reporting and frauds in public organization.

This clearly revealed that most public employees are aware of the various objectives of internal audit in enhancing financial management in public organizations. It is thus evident that internal audit plays a critical role in the management of public funds. However, them being part of the organizations, they may not be independent in carrying out their audit work and are influenced by managers hence the need for independent audit by external auditors.

4.3.2.5 Role of internal audit to external auditors

Some of the role of internal audit is to aid external audit in conducting audit process. However, earlier studies have conspicuously noted lack of cooperation between internal and external auditors. Nonetheless this study found that internal audit assists external auditors by making their work easier. Respondents stated that internal audit facilitate the way external audit is conducted thus minimizing queries from external auditors. They help to implement audit recommendations and assist organizations in maintaining internal control systems thus easing the work of external auditors. Respondents from the office of auditor general indicated to have used internal auditors report to aid assessing financial risks and acknowledged that they help reduce internal control risks.

4.3.3 Compliance with financial reporting standards

The study findings on whether or not financial reporting in public institution complies with set standards and guidelines were supported by respondent employees from RDB. However, about 37% of respondents mainly from the office of auditor general indicated that public institutions do not comply with the required financial reporting standards and guidelines. A close scrutiny of recent financial statements and recommendation thereto revealed massive non-compliance and supported the views of respondents from the office of auditor general. This demonstrates the contention that is normally witnessed between the organization and external auditors in public institutions. This means that external auditing is critical for efficient of public financial management.

4.3.3.1 Rating compliance with reporting standards

Respondents were required to rate organization's compliance with financial reporting standards and guidelines using five scales of measuring perception of compliance. Findings showed a majority of respondents, 63% disagreed that compliance to financial reporting standards and guidelines is excellent. Furthermore, most respondents indicated that compliance with financial reporting standards and guidelines improve efficiency in the management of public and should be adhered to in public organizations.

TABLE 4.5: Rating compliance with financial reporting standards

Rating	YES = 1	NYN=2	NO = 3	Mean	Interp
Excellent	15%	25%	65%	2.50	N
Very good	17%	28%	65%	2.38	NYN
Good	19%	41%	40%	2.13	NYN
Fair	13%	41%	46%	2.33	NYN
Poor	16%	38%	46%	2.3	NYN

Source: Survey data, 2013

Mean were calculated for the five items of measuring compliance rate of with financial reporting standards. The items of compliance were measured on a three point scale with 1 = Yes, 2= Neither Yes or No (Non response) and 3 = No. Interpretive scale was set as follows: Yes= < 1.5; NYN = 1.5 - < 2.5; and No = >2.5. The findings showed that respondents overwhelmingly disagreed that compliance with financial reporting in RDB is not excellent. Findings on the remaining four items revealed a mean of between 1.5 and 2.5 meaning respondents neither agreed nor disagreed with the remaining measuring the rate of compliance with financial reporting standards and guidelines.

4.3.6 Relationship between external auditing and financial management in public organizations.

This objective sought to establish if there is any connection between external audit and financial management in public organizations. Respondents were required to rate various ways through which external audit impact on various scales measuring efficiency in the public financial management using SA for strongly agree, a= agree, D=disagree and SD = strongly disagree. The impact of external audit on financial management in public organizations were measured on a four point scale with 1 = strongly agree, 2 = agree, 3 = disagree and 4 = strongly disagree.

The mean were calculated for the various statement or items of measuring impacts of external audit to efficient of public financial management. Interpretive scale for the results was established as follows: 1.50 or less = Strongly Agree, 1.51 - 2.5 = Agree, 2.51 – 3.49 = disagree, 3.5 or greater = Strongly Disagree. Findings indicate that respondents agreed auditors improves six of the seven items measuring efficiency of financial management in public sector. They however disagreed with two items namely auditors ascertain true and fair view of financial statements and reduce financial risks in public organizations.

TABLE 4.8: Efficient financial management in public organizations

Ways of efficient financial management	SA=1	A=2	D=3	SD=4	Mean
Ascertain true and fair view of fin. Reports	11	9	21	19	2.61 D
Establishes consistency in fin. reporting	13	19	16	12	2.18 A
Leads to credibility of financial reports	25	17	11	9	1.96 A
Reduces finances risks	9	11	19	21	2.87 D
Correctness of books of Accounts	14	19	18	11	2.08 A
Instill confidence to users	19	22	12	9	2.03 A
Calculating insurance claims	21	17	14	10	2.01 A
Others	13	19	18	12	2.18 A

Source: Survey data, 2013

Mean = $\{(SA*1/62) + (A*2/62) + (D*3/62) + (SD*4/620)\}$ where 62= sample size

The Cronbach’s alpha of internal consistency coefficient was calculated to estimate reliability of variables and was found to be $\alpha = .79$. This was way above the acceptable limits of alpha set of .70 meaning the variables used in the study were reliable. Sample estimates of correlation close to unity in magnitude imply good correlation.

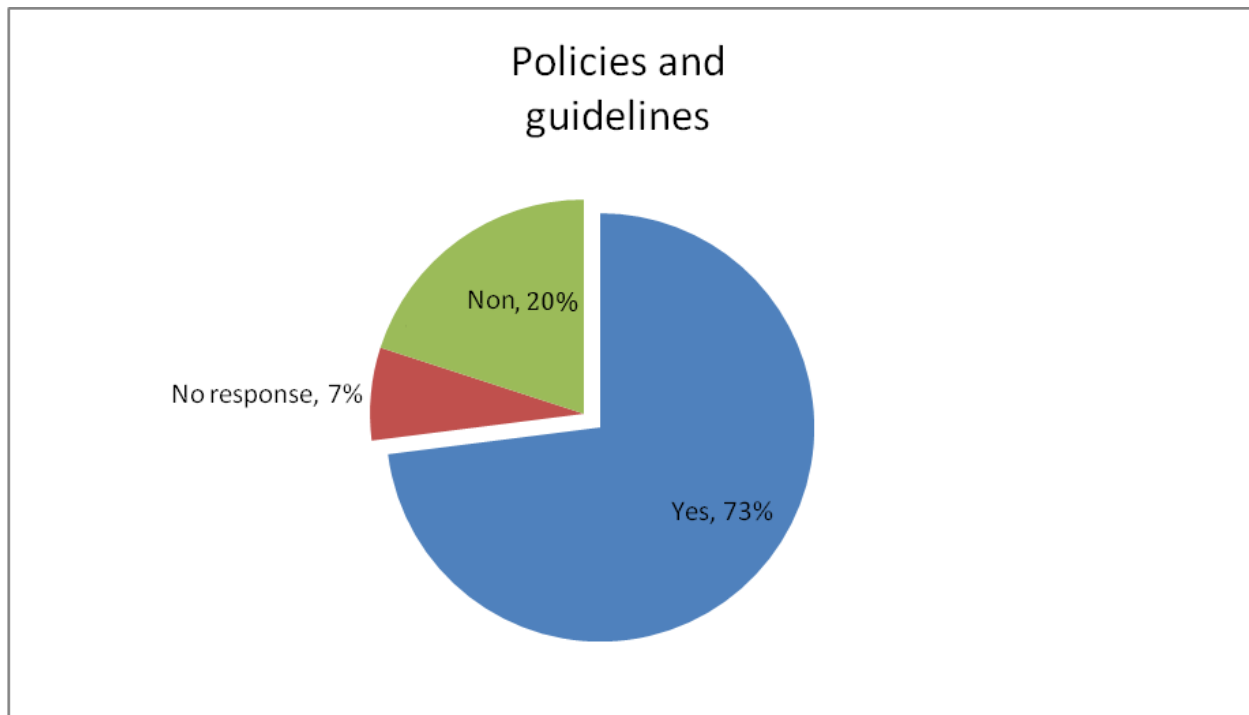
The observations and views expressed by the respondents indicated that there is a closer relationship between external auditors’ professional ethics and the reliability of published financial statement. The respondents supported this assertion because without the exhibition of professional ethics, independent opinion cannot be expressed and as a result will not reflect the true picture of the published statement. According to most respondents, Auditors performance

adds credibility to management's inherent assertions included in the financial statements which is achieved by gathering and evaluating audit evidence.

4.3.3.2 Auditing guidelines and policies

There is need to have clear guidelines to aid the process of auditing public institution. Most respondents indicated that there is sufficient laid down procedures to guide auditing process in public institutions as supported by 73% of study respondents with none response rate of 20%.

Figure 4.7: Views on clear financial reporting policies



Source: Survey data, 2013

A majority of respondents further stated that organizational structure of RDB has established clear lines of authority and responsibility for monitoring adherence to prescribed policies as well timely and accurate financial, operational and statutory disclosure. They also indicated that adequate procedures are in place to safeguard and manage organization's assets as well as a system of compliance with applicable laws and regulations regarding financial reporting. Despite these provisions, there is still non-compliance to financial reporting standards and guidelines pointing which is attributed to incompetence staff, low staff morale and inadequate staff and supportive resources in most public organizations among other factors.

4.3.4 Professional ethics and competences of external auditors

The findings revealed that external auditors comply with all items measuring professional auditing ethics.

TABLE 4.6: Compliance of auditors with professional ethics

Professional ethics	SA	A	D	SD	Mean
Objective	33%	39%	19%	9%	1.68 A
Independent	37%	41%	18%	4%	1.73A
Professionally ethical	49%	35%	14%	2%	1.61 A
Skillfulness	51%	33%	13	3	1.59 A

Source: Survey data

$$\text{Mean} = \{(SA*1/100) + (A*2/100) + (D*3/100) + (SD*4/100)\}$$

Auditors are expected to comply with auditing professional ethics such as being objective, independent, and professionally ethical and skillfulness. Respondents were required to rate compliance of external auditors with professional ethics and standards SA for strongly agree, a= agree, D=disagree and SD = strongly disagree. It was measured on a four point scale with 1 = strongly agree, 2 = agree, 3 = disagree and 4 = strongly disagree.

The mean were calculated for the various scales measuring compliance with professional ethics. Interpretive scale for the results was established as follows: 1.50 or less = Strongly Agree, 1.51 - 2.5 = Agree, 2.51 – 3.49 = disagree, 3.5 or greater = Strongly Disagree. The Cronbach's alpha internal consistency coefficient was calculated to estimate the reliability of the items used to measure the rate compliance and was determined to be a = .83. This was way above the acceptable limits of alpha which was set of .70 meaning the variables used in the study were reliable. Sample estimates of correlation close to unity in magnitude imply good correlation

4.3.4.1 Perception of external auditors

The study sought to establish the general perception of the public about external auditors through interviews and observations. Fieldwork conducted revealed varied views and perception about the activities of external auditing. Most interviewees mentioned things such as lack of clear responsibilities of external auditors, inability of auditors to carry out their responsibilities professionally, lack of confidence in external auditors despite their role of independence.

4.3.4.2 Rating competence of External auditors

The foremost importance of auditing is to ensure accuracy and correctness of the accounting to a great extent. This requires competent and skilled auditing personnel to be able to ascertain the correctness of financial statements. In this regard, this study required respondents to rate the competence of external auditors in carrying out their daily assignment. The results indicate that most respondents rated external auditors as competent with 72% indicating they are very good followed by 63% and 61% agreeing they are excellent and good respectively.

Mean were calculated for the five items of measuring competence of external auditors. The items of competence were measured on a three point scale with 1 = Yes, 2= Neither Yes or No (Non response) and 3 = No. Interpretive scale was set as follows: Yes= < 1.5 ; NYN = $1.5 - < 2.5$; and No = >2.5 . The findings showed that a majority of respondents rated competence of external auditors as very and good respectively. They however neither agreed nor disagreed that they are excellent and fair but disagreed with the notion that competence of external auditors is poor.

TABLE 4.7: Rating competence of external auditors

Rating	YES = 1	NYN=2	NO = 3	Mean	Interp
Excellent	38	13	11	1.56	NYN
Very good	45	8	9	1.42	Y
Good	37	20	5	1.48	Y
Fair	11	17	34	2.37	NYN
Poor	2	13	47	2.73	N

Source: Survey data, 2013

The Cronbach's alpha internal consistency coefficient was calculated to estimate the reliability of the items measuring the rate of competence and was determined to be $\alpha = .96$. This was way above the acceptable limits of alpha set of .70 meaning the variables used in the study were reliable. Sample estimates of correlation close to unity in magnitude imply good correlation.

4.3.4.2 Qualities of auditors

Views were sought about qualities an auditor must possess in performing his professional responsibilities. The emphasis was drawn on the skills the auditor must exhibit in carrying out his daily assignment and whether people regard these attributes before engaging them. Among the people interviewed, 70.58% regarded these attributes of the auditor as an important element since the auditor serves as the mouth piece of investors and owners of a business who does not take active role in the running of the business. The respondents were required to cite some qualities which included tactfulness, independence, enquiry mind, and skillfulness which must be exhibited by the auditor in performing his duties and in expressing his opinion on the reliability of published financial statement.

4.3.5 Challenges faced by external auditors in auditing public institution

This objective sought to determine the various factors and issues that hinder the work of external auditors in the execution of their duties. All but 2% of respondents indicated that auditors face various hurdles and challenges while carrying out their daily assignment in public institutions.

Below is a summary of various factors and issues identified by respondents as main challenges facing external auditors in auditing public organizations.

Pressure on external Auditor to complete their work

Lack of cooperation from internal Auditors

Delay in preparation of financial statement

Unsatisfactory explanations to enquiries

Missing vouchers and source documents

Misconception on the work of the External Auditors

Poor record keeping of client's transaction.

Lapses in the implementation of internal controls

Source: Survey data, 2013

Respondents also indicated that they offer support to external auditors while undertaking their duties despite the bad blood between external auditors and public employees tasked with financial management. Among the cited support include provision of required documents, response to most queries among others.

4.3.7 Hypothesis Testing

The Spearman's Rank Order correlation was run in SPSS to determine the relationship between the external auditing and management of public finance as well as auditors' compliance with ethics and reliability of published reports. Similarly, in conducting this analysis, certain assumptions shall also be taken into considerations. These are: variables should be measured in nominal or ordinal values, not normally distributed and should be monotonic.

Since the variables involved in this study are measured on an ordinal scale, the first assumption was observed. The second assumption that there needs to be a monotonic relationship between the two variables shall be verified. Visually, it can be observed that the variables tend to be

monotonic even with the presence of some outliers. Efficient management of finance tends to increase with increases in external auditing.

HA: There is strong relationship between efficient financial management in public organizations and external auditing

H0: There is no strong relationship between efficient management in public organizations and external auditing

TABLE 4.9: Correlation between fin mgt and Ext Auditing

Construct	alpha	mean	SD	df	p	Spearman's rho	
Management	.92	1.97	.33	171	<.001	.37	
Auditing		.92	5.66	1.65	171	<.001	.37

The tests revealed that there was a significant positive relationship between efficient management of finance in public sector and external auditing.

HA: There is correlation between auditor's compliance to professional ethics and reliability of published financial reports.

H0: There is no correlation between auditor's compliance to professional ethics and reliability of published financial reports.

Table 4.10: Correlation between compliance and reliability of reports

Construct	alpha	mean	SD	df	p	Spearman's rho
Compliance	.92	1.93	.30	138	<.001	.42
Reliability	.93	5.64	1.67	138	<.001	-.42

It also found positive significant correlation between auditor's compliance to professional ethics and reliability of published financial reports in public organizations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of major findings based on the study objectives on impact of external auditing on the management of public finance in Rwanda. Conclusions and recommendations are provided thereafter in that order. The presentation flows in accordance with the research objectives starting with the profile of the study respondents and finally the conclusions and recommendations. This systematic manner ensures that every research questions is answered satisfactorily.

5.2 Summary of the Study

The purpose of this study was to investigate the impact of external auditing on financial management in public organization in Rwanda using a case study of RDB. The study was guided by the following specific objectives:

Ascertain the contributions of external auditors to public institution's conformity with financial reporting standards and guidelines.

Determine whether or not the external auditors exercise professional ethics and competences in carrying out their daily assignment.

Explore various challenges faced by external auditors in carrying out auditing of public institutions

Examine the correlation between external audit and the management of public finance in public institutions of Rwanda.

In order to realize these objectives, the researcher adopted a case study design to obtain the in depth data. This design was adopted as the suitable research design, since it facilitated the collection of original data necessary to realize the research objectives. In terms of population, the researcher targeted 73 employees from relevant departments in RDB as well employees from the office of auditor general. A sample of 65 was identified using purposive and stratified random sampling technique to obtain a representative sample. A total of 62 useable questionnaires (95%)

were satisfactory filled and returned to the researcher. The minimum required sample size of 61 respondents was calculated using Slovene's formula.

The survey instrument consisted of three parts. Part one of the research instruments was designed gather information on selected personal and professional demographic characteristics of the respondents. Part two of the instrument sought background information on the concept and context of the study. This information was critical in assessing the knowledge of respondents in regard to topic of study to ensure credibility of the study findings. The questions sought to establish public perception about external auditors, efficiency of accounting system and auditing personnel, objectives and roles of externals audit among others. The third and final part sought answers to research questions. Survey participants were asked to respond to all items in their role as auditors and auditee's.

Data was collected using observation, review of literatures and scrutiny of financial documents and interview aided by questionnaire that was pilot tested to ensure reliability and validity of the data. Data collected was, summarized, coded and quantitatively analyzed to compute descriptive statistics and presented in form of tables, graphs and charts.

5.3 Major Findings

5.3.1 Financial management in public institution

Public organizations play major role in the society as they can implement government 'policies in order to promote national economic, social and other developmental goals. For achieving better accountability for the use of public funds, an external audit is one of the key instruments (Glover and Prawtt 2004). External audit in public sector is believed to promote the proper and effective use of public funds and hence development of good financial management even if there is internal control and audit.

The study found that most public organization possess adequate accounting system that properly identifies, assembles, analyzes, classifies, records and reports the financial transactions in accordance with the prescribed formats and best practice. However, public institutions lack sufficient human resource to efficiently manage financial resources. Nonetheless, there are specialized people to audit books of accounts and check internal financial controls.

The study shows that public employees are aware of the importance of internal audit in enhancing financial management. However, internal auditor may easily buckle under management's pressure, resulting in a compromise of auditor independence (Moore, Tetlock, Tanlu and Bazerman 2003). Therefore, for purposes of having an independent view, there is need to conduct external audit to ascertain reliability, validity and correctness of financial report.

The auditor has to serve two opposing interests, clients companies and the general public. However, they encounter various conflicts which may negatively impact the auditor's independence and the ability to conduct a just audit (Schultz 1974). The most important conflict being inter – sender role conflict where the auditor is expected to satisfy both the needs of the client management and the third party users.

Despite the various conflicts, this study found that internal audit assists external auditors by facilitating the way through which external audit is conducted thus minimizing queries from external auditors. They help to implement audit recommendations and assist firms in maintaining internal control systems thus easing the work of external auditors. Surveyed external auditors confirmed to use internal auditors report to aid in calculating financial risks and acknowledged that they help reduce internal control risks.

5.3.2 Compliance with financial reporting standards

This objective included determining compliance of public institutions with financial reporting standards and guidelines commonly referred to as GAAP as perceived by the employees of RDB and office of auditor general. There were varied opinions between employees of RDB and those of external auditors regarding compliance with GAAP standards. Accordingly scrutiny of recent financial statements supported the views of external auditors hence public firms do not fully comply with financial reporting standards and guidelines. This demonstrates the contention that is normally witnessed between the firms' management and external auditors hence audit is critical for efficient management of public funds.

Compliance with financial reporting standards and guidelines improve efficiency in the management of public funds and should be adhered to. There were mixed reactions though on rating compliance as respondents neither agreed nor disagreed with most scales measuring the rate of compliance with financial reporting standards and guidelines. The study further revealed

that there are adequate procedures as well appropriate organization structure and adequate procedures to guide and support auditing process in public institutions.

5.3.3 Competences of external auditors

The study findings revealed varied public perceptions and views on the external auditing practices. The study identified lack of clear responsibilities; inability conduct professional auditing and lack of confident in some auditors as the main weaknesses of external auditing that should be worked on to enhance credibility of audited financial reports to inspire confidence among those who enter into any type of financial dealings with the business. However despite various weaknesses, a majority of respondents rated competence of external auditors as competently very good while disagreeing that they are poor auditors.

Competent auditors possess certain qualities necessary in performing their professional responsibilities. These important attributes include tactfulness, independence, enquiry mind and skillfulness. They must be exhibited by auditor in performing his duties and in expressing his opinion on the reliability of published financial statement. Results indicate that attributes of the auditor are important element in auditing since auditors serve as the mouth piece of third party users of financial statements.

5.3.4 Challenges faced by external auditors

External auditors face numerous challenges while conducting their daily assignments. Managers of public institutions misconceive external auditors as investigators charged to discover errors and frauds, and this creates misunderstanding between the auditors and colleagues or officers within the organization. This study confirmed that most challenges are caused by internal personnel. They include lack of cooperation from internal Auditors and managers, delay in preparation of financial statement, unsatisfactory explanations to enquiries, missing vouchers and source documents, poor record keeping and lapses in internal control mechanisms. Elimination of these challenges depends heavily on the willingness of internal managers and employees to positively embrace external auditing. Nonetheless, internal auditors offer some support to external auditors such as provision of required documents and response to most queries among others.

5.3.5 Correlation between external audit and financial management

The main objective of external audit is to enhance financial management. They ensure that books of accounts are properly maintained, accurate and comply with accounting principles and standards, and give a true and fair view of the financial state of the organization (Grinaker and Barr 1971). The results of this study conforms to earlier studies that external audit improves the management of finance. It further found that there is a closer relationship between external auditors' professional ethics and the reliability of published financial statement. The respondents supported this assertion because without the exhibition of professional ethics, independent opinion cannot be expressed and as a result will not reflect the true picture of the published statement. Most respondents agreed that external audit adds credibility to the published financial reports.

5.4 Conclusion

Auditing and accounting are closely connected but separate activities. The directors of a company are responsible for establishing records which will accurately record transactions and which are used for preparing the annual financial statement. It is similarly the responsibility of directors to adopt consistent and appropriate accounting policies in order to prepare the financial statements. The financial statement has to comply with legislative requirements and accounting standards.

Auditing on the other hand concern the end result of accounting work; whether the financial statements show a "true and fair" view. In other to arrive at their conclusion, the auditor must have a deep knowledge and understanding of accounting.

This research examined the impact of external audit on financial management. Findings reveal that apart from the general or universal parameters such as professional qualifications, ethics and objectivity which hinder the work of external auditors, the external auditor play a very important role in ensuring that the RDB complies with financial reporting standards and guidelines.

It also established that internal auditors do not fully cooperate with external auditors; they delay of financial statement and other requisite support among others. These internally created challenges contribute over 60 percent of the obstacles facing external auditors in carrying out their mandate in public sector. Additional findings show there is a positive relationship between

external auditing and professional ethics. The professional ethics comprise of the international laid down rules, standards, and universal accounting principles and to some extent the moral principle of the external auditor in question. Further analysis confirmed that auditors' compliance to the professional ethics enhances the reliability of the published financial report. In conclusion, one key factor leading to reliable financial statement external is ability of external auditor to work in line with professional ethics.

Again, secondary information indicates that there was a highly positive correlation between financial management and the objectivity of an external auditor. This means that apart from all obstacles when an external auditor is very objective in his/her decision with regard to the financial position of the company in question then there is no doubt that the outcome of auditing would lead to a trusted result. Moreover, it is evident from reviewed literature that there is a fairly strong positive relationship between years of external auditing experience and the reliability of a financial statement. Thus, how long an external auditor has worked in the industry would have an impact on the reliability of the financial statement he would endorse.

5.5 Recommendations

From the above study, it is clear that whenever a fiduciary relationship with financial implications existed there is a need for an outsider with sufficient independence and objectivity to review the accounts of stewards and to express an opinion on their honesty or otherwise. The external auditor provides this remedy. This therefore puts RDB and other public firms on toes to ensure that proper records are kept.

In view of this, the attention of policy makers and all stakeholders in the financial and accounting industries must be drawn to the type of data records firms keep. I therefore recommend that strict measures should be put in place to check record keeping techniques and procedures in public organizations in Rwanda. All Accounting Associations and Auditing firms should come up with standard information required of all firms which would need the services of external Auditors.

Finally, I wish to recommend that further studies should be conducted in the future to look at the causes of conflicts surrounding external auditors and internal auditors in public institutions and impacts of these conflicts on reliability of published financial reports. A further study is recommended to assess the perception of managers on external auditors.

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7.0 APPENDICES

7.1 Appendix 1: Letter of Introduction to the Respondent

Dear respondent,

RE: The impact of external audit on the financial management in public organizations: A case Study of Rwanda Development Board

This questionnaire has been designed to gather information on the above subject. This study is being carried out for report as a requirement in partial fulfillment of the Master of Science degree in Accounting at National University of Rwanda.

I kindly request you to fill the questionnaire. Any information you provide were used strictly for academic purposes and were treated with utmost confidence and at no instance will your name or that of your firm be mentioned in the report.

A copy of the research project will be provided to you upon request. Your cooperation will be greatly appreciated.

Thank you for your cooperation.

7.2Appendix 2: Questionnaire

Please fill for me the questionnaire. The information given here will only be used for the purpose of this study and will be treated with utmost confidence.

Part 1: Demographic Characteristics of the respondents

Instructions: Kindly tick appropriately on one that applies

1. Nature of Institution _____
2. Designation _____
3. Age bracket of respondents
 - a. 20-29 Years
 - b. 30-39 Years
 - c. 40-49 Years
 - d. 50-59 Years
 - e. 60 and above
4. Highest level of education obtained
 - a. Certificate
 - b. Diploma
 - c. Bachelor's degree
 - d. Masters
 - e. PhD
5. Years since you joined the current institution
 - a. 0-2 years
 - b. 2-4 years
 - c. 4-6 years
 - d. Over 6 years
6. Do you participate in auditing
Yes () No ()
7. How will you rate your participation in auditing activities?
 - a. Fully
 - b. Partial
 - c. Low

d. None

Part two: Auditing and Public Organizations

8. Does the organization possess an adequate accounting system that properly identifies, assembles, analyzes, classifies, records and reports the institution's transactions in accordance with prescribe formats and best practice?

Yes () No ()

9. Does your institution have specialized people or body corporate that assesses or audits the firm's records and checks internal controls?

Yes () No ()

.....
.....

10. How do you see auditing different from accounting?

.....
.....

11. Kindly list the objectives of auditing?

.....
.....

12. What role does the internal audit play to assist external auditors in your institution?

.....
.....

Part 3: Research Questions

Section 1: Compliance with financial reporting in public institutions

13. Does financial reporting in RDB comply with set standards and guidelines?

Yes () No ()

14. How will you rate compliance of auditors and accountants to financial reporting standards in RDB

- a. Excellent
- b. Very Good
- c. Good
- d. Fair
- e. Poor

Do you believe that compliance improves financial management in RDB?

Yes No

Is there any laid down procedure in carrying out an audit?

Yes () No ()

Does the organizational structure of your institution establish:

Clear lines of authority and responsibility for monitoring adherence to prescribed policies?

Yes () No ()

Timely and accurate financial, operational and statutory disclosure?

Yes () No ()

Adequate set of procedures to safeguard and manage assets?

Yes () No ()

System of compliance with applicable laws and regulations?

Yes () No ()

15. Does an external auditor comply with the following professional ethics? Rate using SA for strongly agree, a= agree, D=disagree and SD = strongly disagree

Professional ethics	SA	A	D	SD
Objective				
Independent				
Professionally ethical				
Skillfulness				

Any other Remark

Section 2: Competence in Auditing of books in RDB

How do you rate the competence of external auditors in RDB

- a. Excellent
- b. Very Good
- c. Good
- d. Fair

e. Poor

What are the qualities of auditors in RDB?

.....

Section 3: Challenges faced by external auditors in auditing public institution

Do the external auditors encounter any difficulty in administering auditing responsibilities?

Yes () No ()

What are these challenges?

.....

.....

Are the external auditors of your institution given the necessary support for their routine audits?

Yes () No ()

What kind of support do you offer?

.....

Section 4: Relationship between external auditing and financial management in public entities

16. Is there a connection between external audit and financial management in RDB?

Yes () No ()

17. What are various ways through which external audit impact on efficiency in financial management in RDB? Rate using SA for strongly agree, a= agree, D=disagree and SD = strongly disagree

Efficiency in financial management	SA	A	D	SD
Ascertain true and fair view of fin. Reports				
Establishes consistency in fin. reporting				
Leads to credibility of financial reports				
Reduces finances risks				
Correctness of books of Accounts				
Instill confidence to users				
Calculating insurance claims				
Others				

18. Any other remark.....

.....

7.3 Appendix 3: Consent for Participation in Interview Research

I volunteer to participate in a research project on impact of external audit on financial management in public organizations: A Case study of RDB. I understand that the project is designed to gather information about academic work. I will be one of approximately 65 people being interviewed for this research.

- i. My participation in this project is voluntary. I understand that I will not be paid for my participation. I may withdraw and discontinue participation at any time without penalty.
- ii. I understand that the researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data are subject to standard data use policies, which protect the anonymity of individuals and institutions.
- iii. I have read and understand the explanation provided to me. I have had all my questions answered to my satisfaction, and I voluntarily agree to participate in this study.
- iv. I have been given a copy of this consent form.

My SignatureDate

Researcher's

Name.....Signature.....Date.....