

# Determinants of Internal Audit Effectiveness of Public Sector; A Case Study Rwanda Revenue Authority

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**Abstract:** *The current trend in Rwanda is that each public institution reports annually to the Office of the Auditor General of state Finances (OAG). The critical situation is that Government Business Enterprises in Rwanda are still challenged by improper management of public funds, lack fair financial reporting and yet they have the services of the internal audit. The general objective of this study is to examine the effect of internal audit in Rwanda Revenue Authority. The study was expected to examine the determinants of internal audit in Rwanda Revenue Authority. Researcher used descriptive research design. The Researcher collected primary data using questionnaires. The questionnaires were distributed to both organizations senior management team and the internal auditors. The researcher used purposive sampling as one of the sampling techniques. The sampling technique of this study constituted by 89 employees of Rwanda Revenue Authority 27 Managers/Supervisors and 62 Auditors. The primary data was used to accomplish the study, and to collect the data from the respondents included in the sample questionnaires distributed. The questionnaires were distributed to the managers and the internal auditors of RRA. The value of  $R^2$  is 0.805. This indicates that there was a variation of 80.5 % of internal audit in RRA at a confidence level of 95% which is strong and positive.. In addition other factors that were not studied in this research contribute to 19.5%. Therefore, further research should be conducted to investigate the other factors which contribute to the internal auditing. This means that approximately 80.5% variations of internal auditing are explained by the four sub variables, at 5% level of significance. Analysis of Variance shows that  $f$ -calculated is greater that  $f$  – critical that is  $2.301 > 0.00$ . This implies that the regression equation was well specified and therefore the co-efficient of the regression shows that there is a strong relationship between internal audit and public sector growth. The analysis of variance of the predictors of the model has a significance of 0.000. Results indicate that management support is the most significant in explaining the public sector with a significance of 0.000 which is less that a  $p$ -value of 0.05 and beta value is 0.801. The aim of this research is to analyze the effect of internal audit in the public sector. The Management support, the management's perception, organizational independence and competent internal audit to public sector development. The Staff result showed that those sub-variables have significant and positive effect on the internal audit. The ability of independent variables to explain the dependent variable is 80.5 %. The audit structure has to be improved and the internal audit manager should report to the Board (Audit committee). Internal audit should get support from management. Audit should be independent and given correct auditing tools. Top management should accept audit findings and correct errors rather than view audit as fault finders*

## 1. Background of the Study

Every country that is administered in a democratic policy, needs to be accountable in its use of public funds and in providing effective, efficient and economical (3e's) service delivery. To achieve those government objectives, applying internal audit function were the major instrument for controlling and using of all scarce resources available in the corporate organization. Ever more larger and complex systems require greater competitiveness, thus internal audit has had to become ever more professional (Van Gansbergh, 2015).

Globally, and especially in Africa, there are calls for governments to be accountable for the huge resources they hold on trust and manage for the people who gave them the political and administrative authority. The public sector represents a principal-agent relationship. The officials or administrators act as the agents while the citizens are the principals. In the words of Achua (2009), government spending is a very big business and the public demands to know whether the huge outlays of money are being spent wisely for public interest. Those in authorities assume fiduciary status with the attendant responsibilities requiring them to render accounts of their stewardship to the citizens

for whom the authority is held in trust. Thus, the agents are expected to periodically render accounts of their stewardship to the principals for the use of resources and the extent to which the public's objectives have been accomplished. The citizens (the principals) have contributed resources through taxes and other duties to national budget for economic and social development. They need an independent third party to lend credibility to the stewardship accounts rendered by the agents, that is, the government. They rely upon the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agents have used the resources in accordance with the principal's wishes (AlMatarneh, 2011 & Al-Shammari, 2010).

In Rwanda, the scope of internal audit changed after 1994 Rwandan Tutsis genocide. Following the requirement of Article 12 of the Organic Law No. 37/2006 on state finance and property in Rwanda, the new scope spans not only over the budget agencies state organs, which are entitled to budget in the annual State Finances Law, which are defined under Article 2 of the Organic Law, but also any other entities which benefit in any way from State resources. In 2010 this unit was renamed the Office of the Government Chief Internal Auditor. In addition to the Office of the Government Chief Internal Auditor which has the authority

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to audit any government agency, Internal Audit Units are established in the districts and in other public and semi-public institutions.

The public sector provides services such as education, healthcare, electric services, security and so on, which benefit the society and encourage equal prospect to benefit from those services provided (Mihret & Yismaw, 2007).

This research focused on the determinants of Internal Audit Effectiveness in Rwanda Revenue Authority as one of public institutions in Rwanda, the efficiency and effectiveness of the management operations in public sector are ensured by the effectiveness of its employees. Internal auditors which are the focus of this study and also the key employees of public institutions, are expected to work independently and objectively to enhance high quality of public services, achieve good internal control system, avoid corruption, ensure good corporate governance system, promote accountability and greater transparency (Coram et al, 2008; Van Peurse 2015)

Therefore, it is important to have effective internal audit unit as part of modern governance system in public sector offices. In corporate governance, internal audit (IA) issue has received increasing attention in recent years due to different reasons. To mention some of them, internal audit links to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; reduce information asymmetry during decision making; serves as an important internal assurance in the business and financial reporting process of corporations (Soh D and al., Yismaw 2007). Additionally, in the accounting profession, auditors play an important role in serving the public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting process and they serve as an important link in the business and financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2009).

According to Mihret & Yismaw, (2007) in their case study, they argue that internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors (Mihret & Yismaw, 2007).

## 2. Statement of the Problem

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function

(IAF) which will provide value to the other cornerstones of corporate governance (Smet & Mention, 2011).

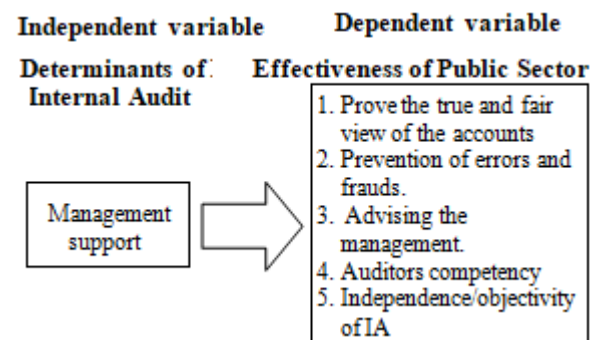
The current trend in Rwanda is that each public institution reports annually to the Office of the Auditor General of state Finances (OAG). The critical situation is that Government Business Enterprises in Rwanda are still challenged by improper management of public funds, lack fair financial reporting and yet they have the services of the internal audit. The office of Auditor General report to the parliament (public Accounts committee) every year that some public institutions do not comply with rules and regulations for public finance management (Biraro, 2016). The report clearly mentioned that Government Business Enterprises do not have adequate mechanisms of enhancing public funds accountability, have persistent weaknesses in preparation and presentation of financial statements, breaking rules and regulations of funds management, existence of fraudulent cases, misappropriation of assets, etc.

With regard to this, the researcher is attempting to identify the determinants influencing the effectiveness of internal auditor's in the public sector offices. Specifically, how management perception of IA value, management support, organizational independence, competence of internal audit staff, and approved IA charter influence the effectiveness of internal audit in the public institutions.

## 3. Objective of the study

To examine the contributions of management support of IA in Rwanda Revenue Authority.

## 4. Conceptual Framework



### Research Design

The study was expected to examine the determinants of internal audit in Rwanda Revenue Authority. Researcher used descriptive research design. The Researcher collected primary data using questionnaires. The questionnaires were distributed to both organizations senior management team and the internal auditors. The researcher used purposive sampling as one of the sampling techniques.

### Population of the Study

Grinnell jr. and Williams, (1990), defined a population as the totality of persons or objects with which a study is concerned. The sampling technique of this study constituted

by 89 employees of Rwanda Revenue Authority 27 Managers/Supervisors and 62 Auditors. This shows that in total, the target population is 89 respondents.

**Sample size and sample selection technique**

Most data were collected using a sample. This means that the data is collected from a representative group of people or things, and use this sample to estimate the characteristic of all people or things (Donald Waters, 1998).

Gilbert A. Churchill, Jr. (1992), asserted that simple random sampling in one of the probability sampling techniques under which each unit included in the sample has a known and equal chance of being selected for study, and every combination of population elements is a sample possibility. It may not be possible for the researcher to investigate all elements comprising the population for the study. Therefore, the researcher used purposive sampling as one of the techniques.. The entire population is 115 and margin of error should always be ( $\leq 0.05$ ) at the confidence level 95%. The formula to be used to determine sample size is mathematically shown below.

$$n = N / (1 + Ne^2) \text{ where } n = \text{Number of samples, } N = \text{Total population and } e = \text{Error tolerance}$$

$$\text{So } n = 115 / (1 + 115 * 0.05^2)$$

**n = 89 respondents**

**Table1: Sample population**

No	Population category	Number of population	Target population
1	Managers/Supervisors	35	27
2	Auditors	80	62
<b>Total</b>		<b>115</b>	<b>89</b>

**Source: HR of RRA, 2018**

**Data Collection Instruments**

The primary data was used to accomplish the study, and to collect the data from the respondents included in the sample questionnaires distributed. The questionnaires were distributed to the managers and the internal auditors of RRA. The questionnaires distributed to the respondent organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part was containing items relating to the influence of IA and its determinants.

**5. Research findings and discussion**

**Table 2: The effect of management support in Rwanda Revenue Authority**

	5- Strongly agree	4- Agree	3- Neutral	2- disagree	1-strongly disagree
1) Management support can effectively identify and report any noncompliance activities with my organization’s policies and procedures	35%	63%	2%	0%	0%
2) The organization supports Internal Auditing staff by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's s systems.	49%	49%	2%	0%	0%
3) RRA management uses the recommendations, criticisms and information provided by internal auditor for decision making.	33%	57%	10%	0%	0%
4) The non-compliance reports provided by internal auditors are reliable and significant to my organization.	41%	57%	2%	0%	0%

**Source: Primary data, 2018**

The main focus of internal audit is monitoring the internal control and financial compliance of an organization. Internal audit is important not only for public sector entities but also for private sector organizations. In the public sector organizations or known as government, all the activities will be monitored easier by the internal audit function.

The above Table 4.4, Show the perception of respondents regarding to the effect of management support in Rwanda Revenue Authority. As shown by the respondents, the views of respondents are clearly showed that management support is contributed to the growth of internal auditing of RRA. Governmental internal auditors have an important function at the central and local government, but the internal audit function is still not effective, and needs to be improved. The perception shows that 98% of respondents appreciated the management support regarding to noncompliance activities. The organization support internal auditing staff by budgeting funds. The organization supports Internal Auditing staff by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's s systems, this statement were appreciated by 98% of the respondents. There are a lot of factors affecting the internal

audit management support. Arena and Azone (2009) said that factors affecting the internal audit effectiveness are characteristic of the audit team, activity and audit process, and the organization relationship. The management support would give freedom for internal auditors to do their job. By this support, audit team will maximally accomplish their task related to their job. They explained that auditee support became one critical factor to the success of audit function.

**6. Conclusion**

The aim of this research is to analyze determinant of effectiveness of internal audit in the public sector. The views of respondents shown that management support has positive effect on the internal audit. It is questionnaire-based, and a measure of the variables, both dependent and independent variable, is established according to the perceptions of the internal auditors.

**7. Recommendations**

Internal audit needs to adopt a new mindset in view of the many changes that are taking place in the business

environment. In the prevalence of financial scandals. The audit structure has to be improved and the internal audit manager should report to the Board (Audit committee). Internal audit should get support from management. Audit should be independent and given correct auditing tools. Top management should accept audit findings and correct errors rather than view audit as fault finders. Audit staff should be qualified and should be adequately remunerated. Management should demonstrated commitment to implement audit findings. Management should respond to all findings and recommendations in time.

Management should cooperate with auditors. Management should give support and allocate adequate resources to internal audit. Management should accept auditors as improvers of the system rather than witch hunters. Auditors should embark on continuous training. Auditors should always be objective and factual. Auditors should be friendly and approachable and constantly strive to improve their performance. Auditors need to have knowledge of the area being audited.

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