The Role of Auditors' Competency in Public Expenditure Management the case of Ethiopia's Ministry of Finance and Public Procurement and Property Administration Agency

Samuel Atsibha Gebreyesus
Consultant and lecturer, Ethiopian Civil Service University Addis Ababa, Ethiopia
Email sasaamiya@gmail.com
gebreyesus.samuel.atsibha@unec.edu.az
PhD student at Azerbijan State University Of Economics

Supervisors:
Dr. Dos.Musayeva Nazakat, m_nazaket@hotmail.com, Azerbaijan
Dr. Anar Mammadov, anar.r.mammadov@gmail.com, Azerbaijan

ABSTRACT
The general objective of the study was to assess the role of auditors' competency in public expenditure management as evidenced by the Ethiopian ministry of finance (MOF) and public procurement and property administration agency (PPPAA). The study used a mixed-methods approach to collect qualitative and quantitative data using questionnaires and document analysis. The respondents for the surveys were chosen using multistage sampling techniques. Quantitative data were analyzed using multiple regressions on five-point Likert scaled items using SPSS and Process Macro, and the Andrew F. Hayes (2022) mediation analysis technique, while qualitative data was analyzed thematically. The result revealed that auditors' competency has a significant direct effect on the mediating variable audit quality and the dependent variable public expenditure management and has a significant indirect effect through the mediating variable on public expenditure management. The study established that auditors' competency has a deterrent effect on the parties involved in the expenditure management areas to work in line with legal frameworks. The ministry and the agency should work hard to enhance the competency of auditors through on-the-job and off-the-job training so that they can improve their public expenditure management.
Keywords: *Audit quality, Competency, Expenditure, and Mediation*

1. INTRODUCTION

Government auditing is essential for effective public sector governance. Auditors assist governmental organizations in achieving accountability and integrity, improving operations, and fostering trust among citizens and stakeholders by offering unbiased, objective assessments of whether public resources are used responsibly and effectively to accomplish desired goals. The supervision, intelligence, and foresight duties of governance are supported by the government auditor's position (IAA, 2006). The audit role has long been seen as an important aspect of government financial management, and it is increasingly being seen as a tool for enhancing government performance. Auditing is a broad term that encompasses a variety of tasks with varying goals (Diamond, 2002). The public-sector audit environment is one in which governments and other public-sector entities are accountable for the use of resources acquired through taxation and other sources in providing services to people and other beneficiaries (ISSAI, 2019).These organizations are responsible for their management, performance, and resource consumption, both for those who supply the resources and for those who rely on the services, including citizens. Public-sector auditing contributes to the creation of favorable conditions and reinforces the expectation that public-sector entities and servants will carry out their duties effectively, efficiently, ethically, and in line with existing laws and regulations. In general, public-sector auditing is the systematic process of objectively gathering and assessing data to determine if information or actual situations meet predetermined standards. Public-sector auditing is critical because it offers information and independent and objective judgments about the stewardship and performance of public policies, programs, and operations to legislative and regulatory bodies, individuals in charge of governance, and the general public.

2. LITERATURE REVIEW

2.1 Public Sector Audit

According to (Bourn, 2018), in many countries, public sector audits are a long-standing and essential component of the accountability process. It is a democratically important activity that aids in the improvement of government functioning. A public sector audit investigates the government's economy, efficiency, and effectiveness. Audit institutions are increasingly being required to defend their own operations and demonstrate their outcomes and successes, particularly after substantial programs of public administration reform have been implemented around the world. Public Sector auditing should be designed as a capable scheme that can be used for checks and balances as well as fraud detection. Such schemes should assist government auditors in uncovering corrupt activities and avoiding significant potential economic shortfalls (Assakaf, 2018). The International Standards of Supreme Audit Institutions represent the function of public sector auditing (ISSAIs). According to the ISSAI's Basic Principles of Public Sector Auditing, all audits in the public sector have the same goals, but the precise aims and outputs may vary depending on the kind of audit. However, there are four principles that govern all audits in the public sector. First, public sector auditing delivers objective, unbiased, and trustworthy information based on adequate and appropriate evidence about public institutions to all prospective consumers. Second, it promotes accountability and transparency, resulting in continual improvement and continued trust in the proper use of public funds and assets, as well as public administration performance. Third, it enhances the constitutional arrangement's efficacy of those entities. Finally, by offering knowledge, extensive analysis, and well-founded recommendations for improvement, it generates incentives for change. Public sector auditing is a key institutional structure in modern government governance, with the primary goal of monitoring, ensuring, and assessing government accountability. Public sector auditing may improve accountability and decrease abuse of authority and resources by monitoring the functioning of government power, particularly how government funds are used. Public sector auditing, according to many nations' governance standards, may play a unique role in preventing corruption. Auditors, on the one hand, are adept at spotting falsified financial reporting, making them useful in uncovering the underlying wrongdoing. On the other hand, the deterrent impact of Public sector auditing may be amplified by making audit results public and holding individual officials accountable (Lin, 2012). The value of Supreme Audit Institutions in improving public financial management and governance is well acknowledged. Supreme Audit Institutions are an important aspect of a country's financial oversight and accountability systems. They are independent state agencies that conduct external audits of public sector organizations and are thus one of the most important tasks in the formal system of financial accountability and public sector governance. (Africa Development Bank and World Bank, 2010) As a result, strengthening Supreme Audit Institutions can significantly boost government effectiveness.

2.2 Auditors' Competency

Competency refers to an individual's ability to do a job or activity correctly based on their educational level, professional experience, and the staff's commitment to continued professional development. The competence of auditors influences the effectiveness of auditing in a company. It improves the auditors' capacity to use a systematic and disciplined audit methodology to increase the efficacy of

IA. The IA office has a continual problem with poor technical staff expertise and significant employee turnover, which limits its ability to deliver effective support to management (Yismaw Dessalegn, et al. 2007). Competencies are technical and non-technical elements possessed by someone, such as attitude and conduct, soft skills, and hard skills. Based on the views of a number of experts, Auditor competencies include the knowledge, competence, ability, and appropriateness of personal behavior required to fulfill his or her job effectively and objectively. Practical Competency (showing a set of tasks in an authentic context), Foundational Competency (understanding that shows the basis of practical competence when it is an action to be taken), and Reflexive Competency are some of the dimensions and indicators that may be used to measure competencies (that demonstrate the ability to integrate performance and work understanding, and the results can show the ability to adapt to situations that change quickly and to be responsible) (Taufiq Supriadi,S. Mulyani,Eddy Mulyadi Soepardi and Ida Farida, 2019).

2.3 Public Sector Auditors Independence

The audit role in organizations emerged from a need to seek further assurance from the executive board and senior management on the efficacy and control of operations. Designing appropriate risk management, control, and governance mechanisms is essentially the responsibility of management. Auditing arose from an executive's desire for additional assurance on the quality of these operations from a neutral and objective source. Auditing contributes to the achievement of the organization's objectives in this way, and it has subsequently been incorporated into many businesses' governance models (M.J.W. van Twist, M. van der Steen, R.W.A. de Korte and A. Nuijten, 2015). The necessity for organizational independence and impartiality, which can enable the audit activity to do work without interference from any party for the audit assignment, is another component that may contribute to a successful government audit activity. (Zulkifli.etal. 2014) internal audit independence and objectivity apply to both assurance and consulting services provided to the company. Independence and objectivity are strongly linked when the audit service is delivered free of constraints that might jeopardize objectivity and with no major quality compromises.

2.4 Public Expenditure

Governments, development agencies, and the general public have shown a significant increase in interest in public expenditure concerns in recent years. Governments are becoming more aware of the value of public spending as a vehicle for attaining their goals, notably in the area of poverty reduction. Over the last three decades, countries with equal revenues and growth have had quite varied effects on poverty. These disparities are due in part to inequalities in governments' abilities to allocate resources to poor-supporting initiatives. This is exacerbated by inconsistencies in the delivery of public services to the poor, particularly fundamental social services. The answer does not always rest with spending allocations; the policy and institutional framework for spending management and service delivery is frequently as important as, if not more important than, spending allocations (DFID, 2001).

2.5 Public Expenditure Management

PEM has a tendency to promote three outcomes: aggregate fiscal discipline, allocative efficiency, and operational efficiency. Aggregate fiscal discipline refers to the alignment of government spending with total receipts (domestic revenues plus a sustainable level of foreign borrowing); in other words, it implies maintaining government spending within reasonable bounds. To put it another way, don't spend more than you can afford. Allocative efficiency, on the other hand, relates to the alignment of budgetary allocations with strategic priorities: are budgetary resources going to programs and activities that advance the country's strategic goals? Is the government spending money on the "right" things, to put it another way? Finally, operational efficiency relates to the delivery of public services at a fair cost and of acceptable quality. The question is whether the country is receiving the best value for its money. The attainment of these goals is hampered by a slew of underlying issues (Campos, 2001).

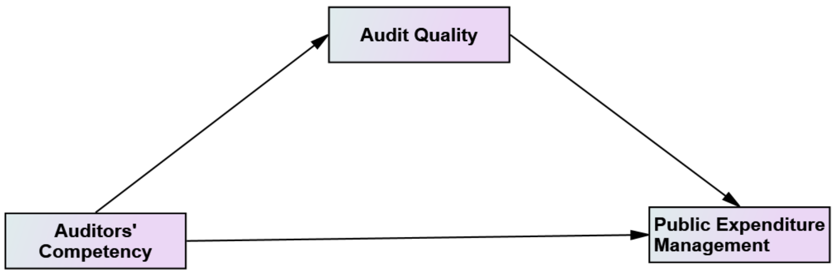
2.6 PERCEPTUAL DETERRENCE THEORY (PDT)

When deciding whether or not to participate in unlawful or immoral action, decision-makers weigh both the perceived risk of detection and the probability of punishment, according to PDT.

	coeff	se	t	p	LLCI	ULCI
Constant	2.9841	.2702	11.0440	.0000	2.4497	3.5185
Auditors' competency	.2202	.0708	3.1115	.0023	.0802	.3601

Further, PDT claims that deterrence is most likely to occur when both of these components are considered to be present and adequately high. (Jessica L. Buchanan, Benjamin P. Commerford, and Elaine (Ying) Wang, 2019) Prior accounting research shows that enhanced auditor scrutiny can dissuade managers from making risky accounting decisions, which is consistent with PDT, because auditors have both the power to discover and restrain risky accounting decisions (i.e., penalize).

Simple Mediation Model



Data analysis

Model: 4
Y: Public Expenditure Management
X: Auditors' competency
M: Audit Quality
Sample
Size: 136

OUTCOME VARIABLE:
Audit Quality

Table 1 Model Summary

R	R-sq	MSE	F	df1	df2	p
.2596	.0674	.0795	9.6817	1	134	.0023

Table 2 Model

	Standardized coefficients coeff
Auditors competency	.2596

OUTCOME VARIABLE:
PEM

Table 3 Model Summary

R	R-sq	MSE	F	df1	df2	p
.7743	.5996	.0171	99.5707	2	133	.0000

Table 4 Model

	coeff	se	t	p	LLCI	ULCI
Constant	1.3475	.1734	7.7719	.0000	1.0045	1.6904
Auditors' competency	.3502	.0340	10.2956	.0000	.2829	.4175
Audit Quality	.2666	.0401	6.6476	.0000	.1873	.3459

Table 5 Standardized coefficients

	coeff
Auditors' competency	.5850
Audit Quality	.3777

TOTAL, DIRECT, AND INDIRECT EFFECTS OF X ON Y

Table 6 Total effect of X on Y

Effect	se	t	p	LLCI	ULCI
.4089	.0378	10.8250	.0000	.3342	.4836

Table 7 Direct effect of X on Y

Effect	se	t	p	LLCI	ULCI
.3502	.0340	10.2956	.0000	.2829	.4175

Table 8 Indirect effect(s) of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Audit Quality	.0587	.0236	.0149	.1067

ANALYSIS NOTES AND ERRORS
Level of confidence for all confidence intervals in output:
95.0000
Number of bootstrap samples for percentile bootstrap confidence intervals: 5000

3.1 Mediation Analysis

The researcher wants to know if a suggested mediator, M, can actually explain the impact of X on Y. Estimating the indirect effect through the mediator M is used to answer this question (Hayes 2013). The study assessed the mediating role of Audit quality on the relationships between Auditors' competence and Public expenditure management. The result revealed a significant indirect effect of auditors' competency on public expenditure management (0.0587, t=10.2956), Supporting H1. Furthermore, the direct effect of Auditors' competence on public expenditure management in the presence of the mediator was also found significant (b=0.3502, p<0.001). Hence, Audit quality partially mediated the relationship between auditors' competency and public expenditure management. It is a complementary mediation rather than a competitive mediation since both direct and indirect effects have the same positive coefficients.

Table following on the next page

Table 9 Mediation analysis summary table

Relationship	Total Effect	Direct Effect	Indirect Effect	Confidence Interval		t-Statistics	Conclusion
				Lower Bound	Upper Bound		
Auditor competency->Audit quality->Public expenditure management	0.4089 (0.000)	0.502 (0.000)	0.0587	.0149	0.1067	10.2956	Partial Mediation

3. CONCLUSION AND RECOMMENDATION

The study established that the better the audit quality of a government organization, the better its public expenditure management. Even if there are different factors that affect the efficiency and effectiveness of government expenditure management, auditors' competency has a significant influence on the parties who are involved in the public expenditure management aspects of government activities by creating a deterrent effect to work in line with legal frameworks.
Recommendation are as follows:

- The government should allot appropriate resources to improve the audit institutions in order to adequately execute its responsibility to guarantee that public-sector organizations fulfill their intended purpose without wastage of resources, misappropriation, or corruption.
- *The audit institution should work hard to strengthen the competency of auditors through on-the-job and off-the-job training so that they can improve their public expenditure management.*
- *According to the international audit standards, auditors should get at least 40 hours of training annually so that they can perform their duties without any difficulties.*
- *The audit institution work with stakeholders to create an opportunity for the auditors to upgrade their knowledge and skills through training and development programs.*

LITERATURE:

1. Africa Development Bank and World Bank. (2010). Strengthening Country External Audit Systems in Africa A Joint Strategy of the Africa Development Bank and the World Bank . *OSGE* , 1-40.
2. Assakaf, E. A. (2018). Public Sector Auditing and Corruption: A Literature Review . *Asian Journal of Finance & Accounting* , 1-16.
3. Bourn, J. (2018). A Survey of Factors Affecting Public Audit Institutions Performance: The Case of Kenya National Audit Office. *London: John Wiley &* , 1-66.
4. Campos, J. E. (2001). What is Public Expenditure Management (PEM) . *Asian Development Bank* , 1-4.
5. DFID. (2001). Understanding and reforming public expenditure management. *Department for International Development* , 1-82.
6. Diamond, J. (2002). The Role of Internal Audit in Government Financial Management: An International Perspective. *International Monetary Fund* , 1-23.
7. IAA. (2006). The Role of Auditing in Public Sector Governance. *The Institute of Internal Auditors* , 1-26.
8. ISSAI. (2019). *Fundamental Principles of Public-Sector Auditing.* Vienna : INTOSAI.

9. Jessica L. Buchanan, Benjamin P. Commerford, and Elaine (Ying) Wang. (2019). Auditor Actions and the Deterrence of Manager Opportunism: The Importance of Communication to the Board and Consistency with Peer Behavior . *Social Science Research Network's Partners in Publishing* , 1-50.
10. Lin, J. L. (2012). Government auditing and corruption control: Evidence from China's provincial panel data. *China Journal of Accounting Research* , 1-24.
11. M.J.W. van Twist, M. van der Steen, R.W.A. de Korte and A. Nuijten. (2015). *Consulting & Auditing The complementary competencies of conflicting professionals logics.* Florida: IIA.
12. Taufiq Supriadi,S. Mulyani,Eddy Mulyadi Soepardi and Ida Farida. (2019). Influence of Auditor Competency in Using Information Technology on the Success of E-audit System Implementation . *EURASIA Journal of Mathematics, Science and Technology Education* , 1-13.
13. Yismaw Dessalegn, Getie Mihret and Aderajew Wondim. (2007). Internal audit effectiveness: an Ethiopian public sector case study. *Managerial Auditing Journal* , 1-16.
14. Zulkifli Baharud-din,Alagan Shokiyah and Mohd Serjana Ibrahim. (2014). Factors that Contribute to the Effectiveness of Internal Audit in public sector . *International Proceedings of Economics Development and Research* , 1-7.