
Research

FACTORS AFFECTING THE BEHAVIOR OF GOVERNMENT AUDITORS FOR THE SURVEILLANCE OF THE PUBLIC SECTOR OF PAKISTAN

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Abstract

This research is intended to present the important factors which affect the behavior of government auditors, who are responsible for the surveillance of the public sector of Pakistan. Government auditors bring accountability and transparency through financial, regulatory and compliance audits of the public sector. The behavior of government auditors has been studied through a model which consists of four independent variables-human resource practices, audit facilities and external factors. A questionnaire with five point Likert scale has been developed. Three hundred government auditors were selected as a sample of the study. The response rate remained at 83%. Simple and multiple linear regression have been applied to test the relationship between the independent and the dependent variables. It is concluded that HR practices, audit facilities, external factors and behavior of the auditee have positive and significant relationship with the behavior of auditors. If these factors are strengthened, the auditors can work in an effective manner.

Keywords: Government, auditors, audit, Human resources, regression, behavior, transparency, accountability.

JEL Classification: Z000

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Introduction

Accountability means liability to the next higher level official about the assigned responsibilities (Hussain, 2011). At the government level, ministries and several government departments are accountable to the parliament for spending money for public welfare, e.g. education, defense, food and trade, etc, government entities are stewards of public funds and they are subject to external inspection (IFAC, 2001). These entities can be held liable for their deeds through effective auditing. The Parliament appoints government auditors as watchdogs who inspect the government entities and report to the parliament about the utilization of funds (Guthrine, 1997). The government auditors are responsible for the governance of the public sector to reduce frauds in accounting and reporting of expenses incurred by government entities (Broadley, 2006). Government auditors have multiple roles. They have to recommend key guidelines to improve the appropriation of funds after detailed scrutiny of ministries, analyze gaps between what was expected and what have been done (Institute of Internal Auditors, 2006). Moreover, they have to follow up ministries to evaluate how much their recommendations have been considered.

Although government auditors are present for the surveillance of the government entities, still misappropriation of funds at the government level is an issue in Pakistan. The conflict of interest between government entities and parliament is increasing because funds are not being utilized for public welfare. So, general public who pays funds to the government in the form of taxes is losing trust in government. Corruption index (2014) of transparency international shows that Pakistan is one of the most corrupt countries along with China, India, Afghanistan, Korea and the UK. Masood & Lodhi (2015) concluded that the massive corruption, old methods of auditing, poor behavior of auditee, lack of auditor's power to take action against malpractices, lack of resources and lack of qualified trainers are some important causes behind ineffective audits in Pakistan.

To minimize corruption and misappropriation of funds through transparent audits, first of all, the government needs to pay attention to the issues and problems of government auditors which they face during the audit. The following research is significant in highlighting the problems faced by government auditors of Pakistan in conducting audits.

Research objectives

- To study the factors which influence the behavior of government auditors in bringing accountability and transparency in the public sector?
- To determine the relationship between those factors and behavior of government auditors.

Literature review

Different researchers highlighted several factors which affect government auditors. They followed mixed research methods to know why government auditors are unable to work effectively.

Government auditors can work effectively if they feel satisfied with the work environment. Most importantly, the human resource practices play an important role in improving the performance of the auditors. Strong human resource practices positively affect the behavior of auditors (Mohammad, 2007). In Pakistan, the government organizations have little scope for change, but in order to keep up with other countries, they need to apply best human resource practices. How the best organization manages performance of auditors adds value to the effectiveness of auditors (Masood, 2010). Strong human resource practices have a positive relationship with auditor's performance (Lopez, Peon & Ordous, 2005; Mayo, 2000; Mabey & Raniraz, 2005; Ferris, Perrew, Raft, Zinko, Stoner & Laird, 2007). Jamal (2008) suggested a positive relationship between human resource practices and employee performance, which were based on accessibility of knowledge and learning opportunities. Best human

resources practices such as training, career development, knowledge sharing and management, performance appraisals, promotion systems and job security have a positive relationship with the performance of employees in Greek, Pakistan and Asia Pacific (Budhwar et al, 2010; Masood, 2010; Teseema et al, 2006; Singh, 2004; Huselid, 1995; Ahmad & Schroeder, 2003). These factors relate to human resource practices.

After the best human resource practices, the second important factor is resource availability. The success of an organization is dependent upon the availability of resources which leads our attention to the resource based view of organizations (Boudreau, 1996). Innovative technology, sufficient budget and knowledge management systems determine the effectiveness of the organization and ultimately the behavior of auditors (Inmyxai & Takahashi, 2010). An organization's human capital, financial resources, technology, innovative abilities and knowledge management affect the behavior of the employees (Nemati, Bhatti, Maqsal, Mansoor & Naveed: 2010). After human capital, the most important factors are economic, technological, and intellectual factors. Availability of technological, human, financial resources and knowledge management system are the leading factors for the effectiveness (Rainey & Stein Bauer, 1999). Through proper budgeting, government auditors will be able to acquire other resources, e.g. transport facilities, Stationaries, computers and office related equipment (Fry et al, 2004). A sufficient budget is necessary to achieve the organizational goals (Fernandez and Rainey, 2006) but in different countries budget allocation is not appropriate, more over auditors' restricted access to audit records makes audit ineffective (Swarbrick, 2011; Zyl et al, 2009; Sifah, 2012). Seal & Pijpers (2004) and Sajad (2009) regarded senior management important enough to accept the technological changes. If management resists, employees will be unable to accept those changes. Research conducted on government auditors shows that they use obsolete technologies with the least tendency to change it (Chong et al, 2000; Swarbrick, 2011; Zyl et al, 2009; Dehkordi & Makarem, 2011; Tudor, 2007). Swarbrick (2011) and

Zyle et al (2009) argued that government auditors have no concept of managing and sharing information with staff and the general public. Moreover, deficiency of human resources increases the burden on auditors to complete audit in restricted time period, which ultimately reduces the effectiveness of audit (Hedger & Blick, 2008; Swarbrick, 2011; Zyle et al, 2009). In addition to it, lack of independence seals auditor's ability to present a true picture of ministries which affects mental freedom and autonomy on the job (Treasury, 2010). All these facilities and resources can be grouped under one head-audit facilities.

External factors such as political pressure can play significant role to make work effective if it contributes positively to strengthen and support the government auditors, but massive corruption caused by political intervention to change audit reports was highlighted by different researchers in Baluchistan, UK and West Australia (Mohammad, 2007; Hedger et al, 2008; Coghill, 2004). According to Rainey (2003), there are various sources of political influence such as chief executives, legislative bodies, courts, interest groups, news media, citizens, and so on. Political interference of these authorities is a key factor to reduce the role of top management for achieving goals of audits (Wolf 1993; Rainey & Steinbauer 1999; Wright et al, 2005). The lack of top management support is another important factor which has been affecting the behavior of auditors in Bangladesh, Turkey and Eastern European countries for many years (Hussain, 2011; Kayrak, 2008; Tudor, 2007). Beside this factor, neither there is a competent agency against government auditors which can motivate it to compete for the betterment of audit departments, they enjoy a monopoly in carrying out public audits, nor is the general public aware of the public sector accountability. Moreover, government auditors in the West Australia and the Eastern European countries suggested that although internal audit departments of auditee can be effective to reduce the time and cost of audit, but auditors do not consider it a reliable source of information (Pichl et al, 2011; Unebg et al, 2011; Chong et al, 2000; Dekhordi et al, 2011; Tudor, 2007). All these factors

are beyond the control of government auditors, so these can be grouped under the head-external factors.

Auditee's behavior has significant contribution to the audit effectiveness. The characteristics of auditee include perception about the audit opinion, cooperativeness, and perception about auditor's competence, how much they understand the recommendations and how they perceive audit criteria. These characteristics are important determinants of behavior of government auditors in Estonia, Bangladesh, Eastern European countries and Ghana (Jane, 2002; Hussain, 2011; Tudor, 2007; Sifah, 2012; Chowdhury et al, 2005).

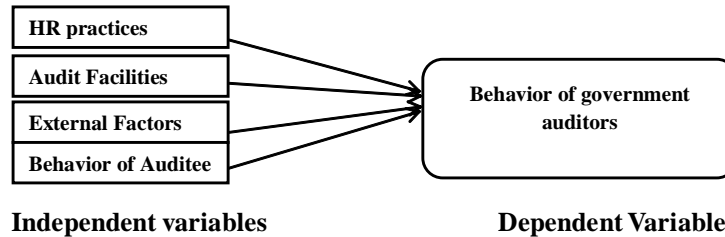
Different researchers of Australia, Bangladesh, Ghana, Cayman Island, Turkey, and Eastern European countries, Indonesia, Ghana, Israel and Pakistan highlighted the behaviors of auditors during audits. There are high resistance to technology, late or timely reporting of audit findings to parliament, compliance with auditing standards of International auditing groups, auditor's previous experience with auditee and auditor's follow up of audit recommendations (Dehkordi et al, 2011; Hussain, 2011; Unebgu et al, 2011; Swarbrick, 2011; Kayrak, 2008; Tudor, 2007; Dwiputrianti, 2011, Sifah, 2012, et al, 2007; Cohen et al, 2010, Masood & Lodhi, 2015). These researches indicate that government auditors use old audit techniques, have low compliance with auditing standards, auditor do not follow up of auditee properly as well as red tapism is a massive problem in the government audit departments.

Theoretical framework

Theoretical model (figure 1) shows the assumed relationship of human resource practices, audit facilities, external factors and behavior of auditee with behavior of government auditors. Each variable has been operationalized and presented in Appendix.

Figure 1

Theoretical model of important determinants of behavior of government auditors



Hypotheses

H₁: Human resource practices significant determinant of the behavior of auditors.

H₂: Audit facilities are determinant of the behavior of auditors.

H₃: External factors are significant determinant of behavior of auditors.

H₄: Behavior of auditee (who is being audited) is a significant determinant of behavior of auditors.

H₅: HR practices, audit facilities, external factors and behavior of auditee are a significant determinant of behavior of auditors.

Research design

Sample

The sample constitutes government auditors from different levels of government of Pakistan. Convenience sampling has been used. Two hundred and fifty government auditors participated in this research. One hundred and sixteen were Audit officers and one hundred and thirty four were Assistant Audit officers. Response rate remained at 83%.

Data collection and analysis tool

The nature of the study is quantitative. The data has been collected through survey method. The questionnaire on five point scale (strongly disagree to strongly agree) has been used to tap the answers (appendix_questionnaire). Eight questions on human resources practices, nine on audit facilities, four on external factors, five on behavior of auditee and nine on behavior of auditor has been asked. SPSS 20 has been used to test H_1 to H_4 through simple linear regression and H_5 through multiple linear regression. Moreover, frequency analysis of each item is carried out.

Results

Evaluation of questionnaire

The reliability of the questionnaire has been measured through cronbach alpha. In table 1, cronbach alpha shows that the items under each variable are reliable to measure the construct under study.

Table 1
Reliability statistics of variables

	Cronbach alpha	No of items	Internal consistency
HR practices	.792	8	Good
Audit facilities	.821	9	Good
External Factors	.728	4	Good
Behavior of auditee	.815	5	Good
Behavior of Auditors	.763	9	Good
Questionnaire	.992	35	Good

Frequency analysis

Responses towards each item of the questionnaire have been discussed here through frequency analysis. In first independent variable- HR practices, 70.1% auditors say that job security is high, 74.8% say that their performance is frequently evaluated, 76.3% are

confident about their audit skills, 71% regarded audit instructions sufficient enough to conduct audit, whereas 57.5% say that career opportunities are limited in department, 23.7% say that promotions are late and 58.3% say that they are monitored through external bodies.

In second independent variable-audit facilities, 70.3% say that they do not have appropriate number of staff to conduct audit (lack of staff), 30.7% say that there is low tendency to replace obsolete technology, 24.4% regard knowledge management system conservative, only 9.7% say that they have mechanism to share reports with general public, 31% are not satisfied with the internal audit departments of auditee to assist them, 32% of auditors say that they do not have power to take actions against frauds, 70.9% complaint that they have restricted access to records of auditee, 80% say that they have full operational independence, 81.1% say that budget allocated through higher authorities is not sufficient to fulfill their needs.

In third independent variable- external factors, 53.1% say that top management is not supportive with us, 70.1% say that political pressures to change audit reports are high, 51% say that monopoly of our department negatively affects audit quality, 71% say that general public demands high public sector accountability for utilization of their funds.

In last independent variable- behavior of auditee, 41.7% of auditors say that auditee has negative perception about audit opinions, 63% say that auditee is not highly cooperative, 48.8% say that auditee has negative perception about their competence, 53% say that auditee always implements their audit recommendations and 65.4% say that auditee perceives audit criteria negatively.

In the dependent variable- behavior of auditee, 58.3% auditors say that they use new auditing techniques during audits,

96.6% agree that they effectively work with Public accounts Committee, 79% auditors encourage public to report fraud in government department, 43.7% auditors do not report audit findings to parliament in timely manner, 49.6% comply with international auditing standards, 69.2% auditors frequently follow up auditee to check either they are implementing audit recommendations, 53.8% auditors have positive experience with auditee, 98% agree that they work effectively to bring accountability in the public sector.

Assumptions of simple linear regression

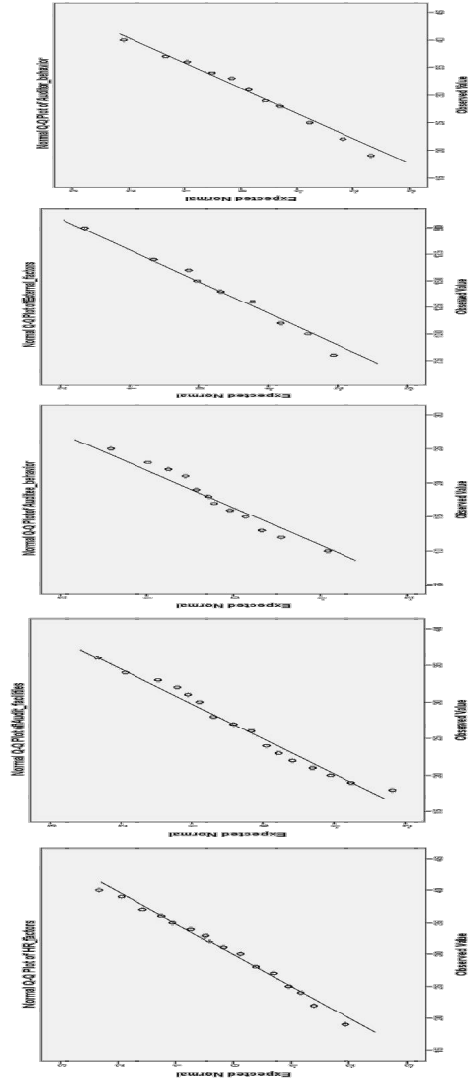
To apply regression, there are certain assumptions which must be satisfied. All assumptions of simple linear regression have been summarized and verified (Table 2).

Table 2
Assumptions of simple linear regression

	Normality	Linearity Pearson (P<0.05)	Autocorrelation (0<Durbin Watson <4)	No Outliers (0<Cook distance<1)	Homeoscadicity of variance of error terms
HR practices	Verified (Fig 2)	.000	2.108	.000 to .020	Homogenous
Audit facilities	Verified (Fig 3)	.000	1.9	.000 to .024	Homogenous
External factors	Verified (Fig 4)	.002	1.976	.000 to .024	Homogenous
Auditee behavior	Verified (Fig 5)	.001	1.980	.000 to .027	Homogenous
Auditor's behavior	Verified (Fig 6)				

Figures 2,3,4,5,6 show that data of the HR practices, Audit facilities, External factors, behavior of auditee and behavior of auditors is normally distributed. Secondly, HR practices, Audit facilities, External factors, behavior of the auditee have a linear relationship with behavior of auditors. Thirdly Durbin Watson shows that error terms are not correlated with each other. Fourth, no outlier exists in data of each model. Fifth assumption is also verified that variances of error terms are homogenous

Figure 2 HR practices **Figure 3** Audit Facilities **Figure 4** Behavior of auditee **Figure 5** External factors **Figure 6** Behavior of auditor



Correlation Matrix

Correlation matrix (table 3) shows that audit facilities, HR practices, external factors and behavior of auditee have significant positive relationship with behavior of auditors because significance values are less than 0.05 and Pearson correlation is positive for all variables.

Table 3
Correlation matrix of variables

		HR Practices	Audit facilities	External factors	Auditee behavior	Auditor behavior
HR Practices	Pearson Correlation	1	.558**	.679**	.436**	.615**
	Sig. (2-tailed)		.000	.000	.000	.000
	N		250	250	250	250
Audit Facilities	Pearson Correlation		1	.504**	.655**	.642**
	Sig. (2-tailed)			.000	.000	.000
	N			250	250	250
External Factors	Pearson Correlation			1	.299**	.635**
	Sig. (2-tailed)				.000	.000
	N				250	250
Auditee behavior	Pearson Correlation				1	.512**
	Sig. (2-tailed)					.000
	N					250
Auditor behavior	Pearson Correlation					1
	Sig. (2-tailed)					
	N					

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

Model summary, analysis of variance and coefficients of the four modelshas been summarized in table 4 for convenience.

Table 4
Summary of statistical analysis

	R² (Model summary)	Significance (P<0.05) (ANOVA table)	Equation (Coefficient table)	Hypothesis
1.HR Practices(a)	37.8%	.000	15.509+.668(a)	Supported
2.Audit Facilities(b)	41.3%	.000	19.858+.625 (b)	Supported
3.External Factors(c)	40.3%	.000	20.191+1.052 (c)	Supported
4.Behavior of Auditee(d)	26.3%	.000	25.294+.653 (d)	Supported

Dependent variable: Behavior of auditors

R^2 tests either model is useful to predict the dependent variable. R^2 is the coefficient of determination which shows how much variation in the dependent variable is caused by the independent variable. In table 4, column 2, HR practices account for 37.8% variation in auditor's behavior which show that the strength of the relationship is moderate and 62.2% variation in behavior of auditor is caused by exogenous variables. Audit facilities are accountable for 41.3% variation, external variables for 40.3% variation and behavior of auditee for 26.3% variation in auditor's behavior which shows that strength of the relationship is weak.

In table 4, column 3, P value of the model determines either independent variable is a predictor of dependent variable or not. HR practices have a significant effect on the behavior of auditors [F (1,248)=105.560, P<0.05]. Audit facilities have a significant effect on the behavior of auditors [F (1,248)=81.728, P<0.05]. External factors have a significant effect on the behavior of auditors [F (1,248)=16.219, P<0.05]. Behavior of auditee has a significant effect on the behavior of auditors [F (1,248)=88.331, P<0.05].

Coefficients show constant and slope of a line (rate of change). It determines regression equation, $Y=a+bx$. In the table, column 4, slope of a line in four models is positive which shows a positive relationship between auditor's behavior. 1% positive change in HR practices will positively change the behavior of auditors by 66.8%. 1% positive change in audit facilities will positively change behavior of auditors by 62.5%. 1% positive change in external factors will positively change auditor's behavior by 105.2% and 1% change in behavior of auditee will positively change the behavior of auditor by 26.3%.

Multiple linear regression

Assumptions of multiple linear regressions are satisfied. The data is normally distributed (fig 2, 3, 4, 5, 6). Assumption of linearity

has been verified through matrix plot. Error terms are not auto correlated (table 5, column 3). No outliers exist in the data (table 5, column 4). There is no issue of multi-collinearity because VIF values for HR practices (2.158), Audit facilities (2.218), external factors (1.972), behavior of auditee (1.807) are less than 10. In table 5, R² shows that the model is strong enough to predict the behavior of auditors. All variables are causing 57.3% variation in auditor's behavior. All four variables collectively affect behavior of auditors [F (4,245) = 82.348, P < 0.05]. HR practices, audit facilities, external factors and behavior of auditee are collectively true and positive predictors of auditor's behavior.

Table 5
Summary of statistical analysis

	R ²	Durbin watson	Cook distance	Significance (P<0.05)	Equation	H ₅
HR practices+ Audit facilities+ External variables+ auditee behavior	57.3%	1.709	.000-.016	.000	9.83+.176(a)+.27 0(b)+.559(c)+.20 2(d)	Supported

Dependent variable: Behavior of auditors

Conclusion

It was hypothesized that HR practices, audit facilities, external factors and the behavior of auditee are determinants of the behavior of auditors. The results justify all the hypotheses. All independent variables individually and collectively are significant and positive predictors of the behavior of government auditors. If these variables are strengthened, the behavior of auditors can be improved towards audit. Moreover, the frequency analysis shows that the concept of career development in audit department is weak; auditors are demotivated due to late promotion and lack of training sessions. Lack of resources is another important issue of every government department, which increases corruption and bribes at employee level. They start depending on auditee for their personal expenses, which hamper the audit quality. Auditee does not produce audit records in

time, which creates frustration for auditors. In addition to it, top management of audit department is not much supportive to present transparent audit reports before the Public accounts committee. Besides these factors, government auditors of Pakistan strive to bring transparency and accountability in the public sector of Pakistan. If appropriate resources and mental freedom are provided, the government auditors can make the public sector more transparent than ever.

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Appendix: Questionnaire

	Strongly Disagree 1	Disagree 2	Neutral 3	Disagree 4	Strongly Agree 5
HR related factors					
1. I believe my Job security is high					
2. My department offers me broad career opportunities					
3. My performance is evaluated frequently					
4. I possess good professional skills to conduct audit					
5. I am timely promoted on job					
6. Trainings sessions are conducted frequently					
7. Audit instructions are always widely available					
8. Our performance is monitored though external bodies					
Audit facilities					
9. We have appropriate number of staff in our department					
10. There is low tendency to replace obsolete technology					
11. Methods used to share and store knowledge with staff are conservative					
12. We share audit reports with general public					
13. Internal audit departments of auditee firm are effective to assist us during our audits					
14. I have powers to take actions against malpractices					
15. I have operational Independence					
16. Parliament allocates budget to our department that is always lower than our estimated budget					
17. I have unrestricted access to information of auditee					
External factors					
18. Our top management is highly supportive					
19. We have to suffer from high political pressures to change audit reports					
20. Monopoly of our department negatively affects audit quality					
21. General Public demands high public sector accountability for utilization of their funds					
Auditee behavior					
1. Auditee does not has positive perception about our audit opinion					
2. Auditee is highly cooperative with us during audit					
3. Auditee has negative perception about our competence					
4. Auditee always implements our audit recommendations					
5. Auditee negatively perceives audit criteria					
Auditor's behavior to bring accountability					
6. I use new auditing techniques during audits					
7. I do not resist new methods of auditing					
8. I effectively work with Public accounts Committee					
9. I encourage public to report fraud in government department					
10. I timely report audit findings to parliament					
11. I highly comply with international auditing standards					
12. I frequently follow up auditee to check either they are implementing our recommendations					
13. My previous experience with auditee was positive					
14. I work effectively to bring accountability					