

THE LEVEL OF AUDITING AND PERFORMANCE IN THE SELECTED FINANCIAL INSTITUTIONS IN SOUTH SUDAN

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ABSTRACT

The purpose of the study was to investigate on the levels of auditing in some selected financial institutions in South Sudan. The main objective of the study was to find out the extent of auditing practice in firms in South Sudan. Literature on auditing as a control a control technique and performance measurement was reviewed specifically the theories and concepts on the same, empirical review was also conducted. The study adopted a descriptive survey design. This design was particularly used because it was aimed at establishing a relationship between the study variables. The target population was 195 respondents were 46 formed the sample size. Data was collected through interviews and questionnaires and analysed qualitatively and quantitatively. On a mean score of 5, the study found out that the levels of auditing and performance were as high as 3.38 and 3.42 respectively, which were high. The study concluded that the levels of auditing and performance were both generally high in selected financial institutions of South Sudan but can get better. The study recommends that there is a need for a routine to maintain the levels of auditing which in turn will inspire more confidence to owners of the businesses and other stakeholders. And the government need to play its role of regulation in order to maintain the highest performance.

Key Words: *performance, finance, auditing, financial institutions, South Sudan*

Introduction

At the heart of the institutions and organizations, is the audit function; this is evident by the fact that all departments are linked to the internal audit department. Technological advancements, the complexity of the business and allegations of fraudulent financial reporting recently sharpened the ever-increasing attention to internal controls and internal auditing (Karagiorgos *et al.*, 2009). Organizations have recognized internal audit function as a tool for ensuring effective workings of the internal control system.

Coordination of internal and external audit, has received considerable attention especially over the last decade due to the understanding that robust computerized systems help minimize the devastating impact of corporate collapse (Rusak and Johnson, 2007). Recognition of the audit's role in enhancing financial reporting quality underpins this notion.

The key issue in the field of auditing and assurance is to recognize that auditing can be of even greater value if it looks beyond traditional financial issues and focuses on areas that matter to a wide range of stakeholders and the public (Sikka, 2009; Evbodaghe, 2009). It has been argued, however, that audit methodology which was appropriate for the industrial age may not be sufficiently broad enough for the information technology age when assets are intangible, commerce is electronic, markets are global and the pace of change is ever accelerating (Sikka, 2009; Sikka *et al*, 2009; Asein, 2009).

The credibility of financial statements prepared by directors of financial institutions and audited by external auditors remains the primary means of informing shareholders and other stakeholders about the financial performance, progress and position of the business (Dabor and Adeyemi, 2009). As information technology has advanced, Government organizations have become increasingly dependent on information systems to carry out their operations and to process, maintain, and report essential information (Fan and Wong, 2004). Information Technology Auditors evaluate the reliability of computer generated data supporting financial statements and analyse specific programs and their outcomes. In addition, information technology Auditors examine the adequacy of controls in information systems and related operations to ensure system effectiveness. As a consequence, the reliability of information data and of the systems that process, maintain and report these data are a major concern to audit (DeZoort *et al*. 2002).

Despite the fact that performance can be of even greater value to a wide range of stakeholders and the public, there is a widespread public perception that auditors lack independence from company executives and, as a result, there are concerns about the quality of audits (Hatz, 2004). In the light of this scenario, the prevailing problem which this study investigated was how the correlation of auditing and performance of financial institutions can affect the criteria to grant credit, evaluation of loan applications, performance of banks by causing an exclusive preoccupation with the financial control on the part of funding or implementing agency.

Auditing practices in financial institutions

Betty (1975) describes auditing as a branch of accounting concerned with the efficient use of resources to achieve a previously determined objective or set of objectives contained in a plan. Obazee (1997) describes internal auditing as the whole system of auditing, financial and otherwise, intended to secure management information and reliability of accounting records.

A comprehensive audit is an examination that provides an objective and constructive assessment of the extent to which financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness, and accountability relationships are served" (Hunton,2004).

An audit is an examination of a person, organization, system, process, enterprise, project or product. The term most commonly refers to audits in accounting, but similar concepts also exist in project management, quality management, water management, and energy conservation (Siltow, 2003). The effectiveness of auditing is determined by the fit between the audit and some set of universal standards extrapolated from the characteristics of internal audit (White 1976). Meredith and Akers (2003) observe that the business environment may affect:

1. The procedures followed by the auditor in obtaining a sufficient understanding of the accounting and internal control systems.
2. The consideration of inherent risk and control risk through which the auditor arrives at the risk assessment.
3. The auditor's design and performance of tests of control and substantive procedures appropriate to meet the audit objectives.

This research study was based on Agency theory propounded by Watts and Zimmerman (1986) which suggests that the auditor is appointed in the interests of both the third parties as well as the management. According to 'agency theory' (Watts & Zimmerman 1986), principals (who are assumed to be rational, self-serving but not risk averse) and agents (who are also assumed to be rational and self-serving but not risk-takers) are bound to have differing goals and objectives. This is because they have different time horizons, different attitudes to risk and different work ethics. And if we consider company owners as principals and their appointed managers as agents, then these differing goals and objectives imply that company managers may attempt to operate companies in ways that suit themselves rather than the owners. For various reasons, owners are concerned that managers may have incentives to misreport the financial performance and the financial position of the companies they manage. These reasons may include, for example, to boost their bonuses by inflating profits, or to obscure the effects of excessive perks enjoyed by managers, or to influence the market price of company shares so that their options are more likely to be 'in the money'.

Applying a financial-economics-based theory such as 'agency' is of value both to understand an aspect of organisational practice, and to influence the manner in which management plans, establishes and maintains control systems (San Miguel, 2002). Agency theory has been applied to determine why some public accountants contract for internal auditing (Caplan and Kirschenheiter, 2000) and to examine moral hazards within management systems of different cultures (Ekanayake, 2004; Evans, 2003). There is clearly room for further application. The issue of why internal audit departments vary is of concern here and, in particular, there is an interest in whether agency theory may be able to help explain the *relationships* between internal auditors and others (see Van Peursesem, 1995).

Auditing and Performance of financial institutions

The credibility of financial statements prepared by directors of limited liability companies and audited by external auditors remains the primary means of informing shareholders and other stakeholders about the financial performance, progress and position of the business (Tahinakis

and Nicolaou, 2004; Okike, 2004; Bakre, 2007; Sikka *et al*, 2009; Dabor and Adeyemi, 2009; Evbodaghe, 2009). The key issue in the field of auditing and assurance is to recognise that auditing can be of even greater value if it looks beyond traditional financial issues and focuses on areas that matter to a wide range of stakeholders and the public (Sikka, 2009; Evbodaghe, 2009). Systems for measuring performance differ greatly between audit functions due to the great diversity of organizations, which they serve (Rupsys et al. 2007). However, it is especially important for all audit functions to properly utilize performance measures in order to communicate the value of the audit function to management (Vondra 1993).

The importance of internal audit system cannot be overemphasized where a variety of requirements, processes that are both manual and information communication technology-based (ICT) are used. Okolo (2001) describes the internal audit function as an aspect of control mechanism, within a business, manned by specially assigned staff.

Fadzil *et al*. (2005) conducted a survey on the listed companies in the Bursa Malaysia in 2001 to investigate whether the internal audit department of the listed companies complies with the Standards for the Professional Practice of Internal Auditors (SPPIA) (2000); and, whether compliance to the SPPIA will affect the quality of the internal control system of the company. The results of the study revealed that management of internal audit department; professional proficiency; objectivity and review significantly influence the monitoring and risk assessment aspect of the internal control system. The performance of audit work and audit reporting are significantly influencing the control activities aspect of the internal control system.

Bierstaker *et al*. (2006) surveyed 86 accountants, internal auditors and certified fraud examiners examine the extent to which they use fraud prevention and detection methods, and their perceptions of the effectiveness of these methods. The results indicated that firewalls, virus and password protection, and internal control review and improvement are quite commonly used to combat fraud. However, continuous auditing, discovery sampling, data mining, forensic accountants, and digital analysis software are less often used, despite receiving high ratings of effectiveness due to lack of organization resources and their reluctance to invest in fraud prevention and detection control systems.

Sarens & De Beelde (2006) interviewed chief audit executives in 10 different large manufacturing and service companies located in Belgium and Belgian subsidiaries of US companies. The results of the study suggested that in the Belgian cases, internal auditors' focus on severe shortcomings in the risk management system creates opportunities to demonstrate their value. Internal auditors are playing a pioneering role in the creation of a higher level of risk and control awareness and a more formalized risk management system. However, in the US cases, internal auditors' objective evaluations and opinions are a valuable input for the new internal control review and disclosure requirements. In the area of performance measurement both financial and performance auditors might be involved. In some countries, an individual performance audit may include many different kinds of studies and even several program evaluations. In that sense program evaluation may be considered one of many possible 'tools' that performance auditing uses. Program evaluation is one type of study that might be executed

by the manager under the general heading of performance auditing (SAI, 2007). It is an activity of increasing interest and importance. The statutory backing given to performance audit led Auditors General into a whole new turf, beyond their conventional financial and compliance audit. Morin (2001 p.99) suggested that: "The advent of the VFM audit led auditors into totally new territory to them, Performance audit and subsequently the changes to the remit of the Auditors General were coincidental to a wider international movement called the New Public Management (NPM).

Research Methods

The study adopted a descriptive survey design. This research design method was particularly used because it was aimed at establishing a relationship between the study variables. The target population was 195 respondents were 46 formed the sample size. The sample was arrived at randomly. Data was collected through interviews and questionnaires and analysed qualitatively and quantitatively

Research Findings

The findings indicated that most respondents were male with 85(65%), ranged between 20-39 years of age with 63(49%), over 73(69%) had bachelors' in education and majority 74(63%) had a working experience between 6-10 years. On the level of auditing in selected financial institutions, had an average mean score of 3.42 out of 5 which was high on a Likert scale. The level of performance of financial institutions was also high with an average mean of 3.38.

The findings also indicated a positive significant relationship, since the significant value was less than or equal to 0.05, which is the maximum level of significance required to declare a significant relationship. The same results were supported by the linear regression results which also indicate that auditing and performance have a significant effect on selected financial institutions ($F=34.328$, $\text{sig}=.000$). The same results also indicated that all the four aspects of auditing systems included in the regression model contribute over 86% towards the performance of financial institutions in South Sudan (Adjusted $R^2=.868$). The coefficients indicated the extent to which each the aspect of audit follow up affects performance and this is indicated by Beta values. For example, the constant has an impact on performance with a beta value of .920 with $\text{sig}=.027$, which showed an insignificant effect. This means that the follow ups that are done by auditors have had no significant effect as required to improve the performance of financial institutions.

Conclusions and Recommendations

With reference to the study the researchers conclude that the levels of auditing and performance were both generally high in selected financial institutions of South Sudan but can get better. Therefore there is a need for a routine to maintain the levels of auditing which in turn inspires more confidence to owners of the businesses and other stakeholders. The government's role should also be to reinforce measures for total adherence to auditing in firms in order maintain the highest performance.

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