

## **Internal Audit Practices and the Quality of Financial Reporting: Evidence from Tanzanian Public Sector**

**Flavianus Benedicto Ng'eni**

The Institute of Finance Management (IFM)

[flavianus.ngeni@ifm.ac.tz](mailto:flavianus.ngeni@ifm.ac.tz)

### **Abstract**

The mismanagement of public funds and failure to adhere to established procedures are persistent challenges in the public sector. This paper examines the role of supply-side accountability in ensuring that individuals entrusted with public funds adhere to procedures for the benefit of society. High-quality financial reporting is a key mechanism for achieving this accountability, and internal audit plays a crucial role in enhancing the quality of financial reporting. In particular, the paper assesses the impact of internal audit practices on the quality of financial reporting in Tanzanian public institutions. A correlational research design was adopted, and quantitative data were collected through structured questionnaires administered to 160 respondents from selected public organizations in Tanzania. Regression analysis was used to examine the relationships between the dependent variable (financial reporting quality) and independent variables (internal audit practices). The results indicate that four internal audit variables: management support, organizational independence, staff competence and the audit committee, significantly improve the quality of financial reporting. The study highlights the importance of management support for internal audit functions, emphasizing the recruitment of sufficient and qualified internal auditors to address staffing shortages and ensure effective operations. To further enhance internal audit practices, organizations should implement training programs and embrace digital transformation. These measures can strengthen internal audit's contribution to accountability and financial reporting in the public sector by ensuring that public funds are managed responsibly and in compliance with established procedures.

**Keywords:** *Financial reporting, Internal audit, Public sector*

### **1. Introduction**

In the broader context of governance, control has been closely associated with internal auditing functions, and the effectiveness of internal audits is frequently questioned based on its quality operations (Nteziryayo, 2014). The occurrence of corporate scandals, coupled with financial crises, has fueled debates on whether internal audits are being conducted appropriately to ensure compliance, control, and risk management within organizations (Tapiwa, 2013). In the public sector, all financial activities are closely monitored by internal audit functions due to the complexity of operations. Consequently, internal audits support public organizations in maintaining good governance and achieving their goals (Roziani, 2001).

A significant body of research has identified factors affecting the effectiveness of internal audits. According to Arena & Azone (2009), internal audit effectiveness is influenced by the characteristics of the audit team, audit activity and processes, and organizational relationships. Additionally, Alzeban & Gwilliam (2014) noted that factors such as the competence and independence of internal audit staff, management support, the size of the internal audit department, and the relationship between internal and external auditors have a positive

correlation with internal audit effectiveness. Auditors must possess the necessary skills and competencies to support audit functions, including knowledge of auditing, accounting, governmental administration, and communication. These competencies can enable auditors to become effective tools for monitoring and controlling public funds (Alzeban & Gwilliam, 2014). Furthermore, it is argued that auditors must maintain independence in both their working environment and professional appearance.

The work of internal auditors relies heavily on the support of management or the audited organizations to increase the reliability of financial information. Management support enables internal auditors to access all necessary information during the auditing process. This support also allows auditors to carry out their duties without undue influence from any parties within the organization (Alzeban & Gwilliam, 2014). Moreover, Halimah & Radiah (2009), in their study, emphasized that effective internal audit teams require strong communication with external auditors. The importance of internal audits in government organizations is particularly evident in addressing irregularities in government expenditures, as seen in several countries, including Tanzania. The primary objective of internal audits is to assist management in effectively discharging their responsibilities by providing analyses, appraisals, recommendations, and relevant commentary on reviewed activities (Tapiwa, 2013).

According to Nteziryayo (2014), an effective internal audit provides organizations with four key benefits: it serves as a basis for judgments and actions, exposes weaknesses in controls and performance, assesses areas for improvement, and offers counsel to managers and boards of directors on solving business problems. Additionally, internal audits provide timely, reliable, and useful information to all levels of management. Internal auditors are also tasked with reviewing and appraising the soundness and adequacy of accounting, financial, and operational controls, as well as promoting effective controls at reasonable costs (Van Staden, 2009). They must evaluate compliance with established policies, plans, procedures, laws, and regulations that could significantly impact a company's operations (Ongeri et al., 2013).

The growing demand for internal auditing stems from the need for independent verification to minimize record-keeping errors, asset misappropriation, and fraud in both business and non-business organizations. Many countries, including Tanzania, have been facing some challenges in financial management, including misuse of public funds and failure to adhere to established procedures for public fund utilization (Alzeban & Gwilliam, 2014). For example, in the Annual General Report on the audit of financial statements of the Central Government of Tanzania for the year ending June 30, 2018, the Controller and Auditor General (CAG) reported instances of public fund misuse. These included payments undetected by management and special audit findings such as the procurement of Biometric Voter Registration (BVR) kits by the National Electoral Commission (NEC), the procurement of an Automated Fingerprint Identification System (AFIS) by the Tanzania Police Force, and the procurement of police uniforms and accessories by the Tanzania Police Force.

There is an urgent need to hold government officials accountable for the use and stewardship of public resources and to assess whether public objectives have been met (United Nations, 2015). Citizens, whose taxes fund public expenditures, may lack confidence in the information provided by government officials and therefore seek assurance from an independent function like internal auditing (Bediako-Ahoto, 2013). This is especially important due to potential conflicts of interest, where government officials may prioritize their own interests over those of the public, often citing the complexity of governance (Othman et al., 2009). In this context, citizens rely on auditors to provide an objective evaluation of government officials'

financial accountability. Audit reports confirm whether public resources are used in accordance with established rules and regulations thus supporting vertical accountability (Ongeri et al., 2013).

The internal audit function plays a crucial role in maintaining transparency and accountability in financial reporting by ensuring compliance with the International Public Sector Accounting Standards (IPSAS) and other relevant accounting standards (Polzer et al., 2019). The absence of internal audits undermines the quality of financial reporting and the delivery of social services. Thus, assessing internal audit practices is essential for maintaining the quality of financial reporting as a means of evaluating financial accountability in the public sector. Accordingly, this study seeks to examine the impact of internal audit practices on the quality of financial reporting in Tanzania's public sector.

## **2. Literature Review**

### **2.1. An Overview of the Auditing Function**

Quality financial reporting and auditing are essential elements of financial accountability, playing a vital role in an organization's operational efficiency. According to Basri & Nabiha (2014), proper financial reporting significantly enhances and demonstrates accountability by enabling easier assessment of an organization's operating performance. Beyond its role in assessing stewardship, financial reporting conveys critical information to stakeholders in local governments (Basri & Nabiha, 2014). Specifically, it provides data for decision-making, such as an organization's financial position, operational performance, and capitalization. The primary objective of financial reporting is to facilitate public expenditure control by demonstrating accountability for compliance with the approved budget (Polzer et al., 2019; Chan, 2006; Hughes, 2007). Local citizens have the right to access information about revenue collection and how it is spent on public affairs. Transparency is crucial in local government operations—not only to meet community demands but also to improve financial reporting. Financial reporting is a key tool for discharging public accountability, where local government officials (agents) are accountable to the local community (principal). However, the quality of financial reporting relies on a robust mechanism of internal control and transparency.

As a component of financial accountability, financial reporting is critical to ensure proper use of public finances for delivering social services. Hutagalung & Hum (2016) emphasize that financial reporting significantly enhances public accountability and transparency. These factors; accountability and transparency, are essential for the successful provision of public services (Hutagalung & Hum, 2016). Financial reporting also informs the general public about economic events occurring within local governments (Mohamad et al., 2012). It helps to assess the overall performance and operations of local government authorities by identifying key areas for improvement and areas requiring greater attention to support effective operations.

Auditor independence plays a pivotal role in the audit function. While traditionally associated with external audits, increasing emphasis has been placed on the need for internal auditor independence by professional bodies and standard setters. Despite being employees of the organization, internal auditors must work independently and remain free from influence (Ali et al., 2007). The presence of an independent internal audit department is widely recognized as a critical factor in internal audit effectiveness (Oladejo et al., 2021). Competence and independence are two fundamental attributes of oversight and have a direct impact on the quality of financial reporting (Laković et al., 2016). Organizational independence, in particular, is a key factor influencing the functioning of internal audits and their contribution to high-quality

financial reporting. In their roles, internal auditors are expected to demonstrate integrity and commitment to provide unbiased opinions in all circumstances. They must possess the competence to conduct thorough assessments of all financial activities within the organization. Lack of competence is a major obstacle to satisfactory internal audit performance (Menza et al., 2019). Bediako-Ahoto (2013) notes that the prior audit experience of internal auditors strongly influences the quality of internal audit work and financial reporting. Similarly, Mohd-Zain et al. (2004) highlight that knowledgeable and experienced internal auditors are likely to deliver higher-quality audits. Alzeban & Gwilliam (2014) conclude that greater internal audit effectiveness is associated with more competent audit staff.

While internal auditors may interact regularly with management, independence requires auditors to maintain objectivity and impartiality. The independence of mind is a critical factor for effective internal audit services (Bediako-Ahoto, 2013).

A well-maintained relationship between management and the internal audit department is essential for the success of internal audit functions. Such a relationship provides numerous benefits to the organization and its stakeholders. Management support, through cooperation and coordination, increases efficiency and effectiveness thus directly enhancing the quality of public services (Dawuda et al., 2017). Conversely, a lack of cooperation between internal auditors and management is often cited as a primary factor for reducing audit quality and public service delivery.

Organizations must commit to improving internal audit operations and the quality of financial reporting. They should provide adequate support for internal audit units and ensure that auditors are treated with respect (Alzeban & Sawan, 2013). The roles and functions of the internal audit unit and internal auditors should be well understood by all members of the organization. Internal auditors should also liaise with government management in their daily duties. Management support is vital in stabilizing internal audit functions through the provision of resources, funding, training, and budgets (Alzeban & Gwilliam, 2014).

The reporting structure has been identified as a crucial determinant of internal audit effectiveness, with direct reporting to the audit committee being especially important (Nteziryayo, 2014). The relevance of audit committee depends on factors such as independence, qualifications, skills, experience, and professionalism (Roziani, 2001). An effective audit committee enhances reliability, effectiveness, dependability, and efficiency in corporate governance (Dawuda, 2010). The key functions of the audit committee include the appointment, promotion, and dismissal of the chief internal auditor, as well as recommending the selection and removal of external auditors (Cohen & Sayag, 2010). Thus, the audit committee plays a vital role in both daily operations and audit policy issues within organizations. The public sector, in particular, requires a strong internal control mechanism alongside a robust audit committee to ensure effective operations.

## **2.2. Review of Relevant Theories**

### **2.2.1. Agency Theory**

The Agency Theory, proposed by Jensen & Meckling (1976), examines problems that may arise in agency relationships, such as those between principals and their agents. Two primary problems are addressed by the theory. The first problem arises when the desires and goals of the principal do not align with those of the agent, leading to conflicts, compounded by the principal's inability to fully monitor or validate the agent's activities. The second problem

emerges from differing risk appetites between the principal and the agent, with each party inclined to make different decisions (Jensen & Meckling, 1976).

Adams (1994) suggested that Agency Theory provides a richer and more meaningful framework for analyzing the internal audit function. According to Agency Theory, internal auditing, along with other mechanisms such as reliable financial reporting and external auditing, plays a crucial role in reducing costs associated with conflicts between shareholders and managers (Adams, 1994).

The Agency Theory does not only help to explain the existence of internal audit functions within organizations, but also offers insights into specific features of internal audit departments. These include their size, budgetary allocations, and the scope of their activities, such as focusing on economic versus operational auditing. Empirically, the Agency Theory can be applied to examine whether differences in internal auditing practices are related to shifts in organizational structure and the resulting changes in agency relationships.

### **2.2.2. Contingency Theory**

Audits are often conducted to assess the reliability of a company's information, practices, policies, and procedures (Njiru, 2016). Government regulations typically require public organizations to undertake independent financial audits. Numerous factors can influence a country's audit outcomes, regardless of the audit subject. The Contingency Theory considers these factors during the execution of audits. According to the contingency theory of leadership and management, there is no universal system by which organizations can be governed, controlled, or managed (Islam & Hu, 2012). Instead, effective management depends on various external and internal dynamics. Similarly, the effectiveness of audits is influenced by multiple factors within the environment. The presence of these dynamics necessitates the application of contingency theory in audit management by recognizing that audit procedures and outcomes are dependent on variable and contingent factors.

Broadly speaking, the audit process is straightforward. Auditors are required to access documents, systems, policies, data, and procedures to conduct an audit. Organizations are expected to comply with established standards, rules, government regulations, and circulars. The audit process typically begins with an entry meeting where the auditor explains the audit's objectives, assesses risks, and evaluates control awareness. Auditors may employ various techniques, such as dry tests of controls, to determine residual errors that might occur despite the audit. The auditing process generally includes several stages: planning, fieldwork, reporting the findings, and following up on the implementation of the auditor's recommendations.

According to Daft (2015), audit teams often use a combination of planned and contingency-based approaches to achieve their objectives. Auditing projects can focus on diverse areas, such as evaluating manufacturing processes, reviewing financial records, and assessing compliance with industry standards. The quality and effectiveness of audits depend on two key factors: first, the appropriate use of resources in line with the expertise and experience of the audit team; and second, the team's flexibility to adapt to procedural changes and unforeseen circumstances (Njiru, 2016).

### **2.3. Empirical Literature Review**

Bogonko & Gathogo (2016) conducted a study to examine the factors influencing the internal audit efficiency of the local government in Nakuru. The theoretical framework was based on agency theory, shareholder theory, and stewardship theory. The study employed a descriptive research design, collecting data through structured questionnaires and analyzing it using SPSS

software. The study concluded that there was a statistically significant relationship between the independent variables and the dependent variables. Specifically, organizational independence of the audit committee had a positive and significant relationship with internal audit effectiveness. Additionally, there was a significant and strong positive correlation between auditors' professional efficiency and internal audit effectiveness. Management support for internal audit and the size of the internal audit function were also statistically significant and positively correlated with internal audit effectiveness.

Bediako-Ahoto (2013) investigated the effectiveness of internal auditing in religious organizations. The main objectives were to evaluate the effectiveness of internal audit committees in religious operations, identify strengths and weaknesses in the internal audit structure, and provide recommendations for improving control mechanisms. The study relied on primary data collected through questionnaires administered to 30 respondents. The findings revealed that the majority of respondents were aware of the internal audit committee's operational independence, its role in issuing audit reports, and the benefits it provided to the organization. The study recommended workshops on auditing for both committee members and other stakeholders to enhance the effectiveness of internal auditing in financial and general operations. Similarly, Cohen & Sayag (2010) conducted a study on internal audit effectiveness. Data were collected from organizations' general managers and their internal auditors. The study developed a reliable scale to measure internal audit effectiveness and it revealed that top management support was the primary determinant of internal audit effectiveness. The effect of the predictors was consistent across both public and private sectors.

Riyadh (2017) evaluated the role of the internal audit function in promoting effective corporate governance among commercial banks in Iraq. Specifically, the study analyzed the impact of factors such as work experience, positioning, independence, and the approach to risk identification, measurement, and prioritization, using management support as a key factor for the internal audit function. The findings indicated that the internal audit function is a critical component of corporate governance, safeguarding the interests of all stakeholders in commercial organizations.

Busee (2013) examined factors affecting the effectiveness of internal audits in managing business risks within organizations, with a focus on the National Bank of Commerce in Dar es Salaam. The study used primary data collected via questionnaires and found a positive relationship between internal audit resources, auditor competencies, and internal audit effectiveness in managing risks. In his study, it was revealed that other employees' perceptions of the internal audit office were not favorable. The study recommended improving auditors' independence, access to timely and adequate information, and management support through education and on-the-job training to enhance the effectiveness of internal auditing.

Musah (2018) conducted a study on the determinants of internal audit effectiveness in Ghana's State-Owned Enterprises (SOEs). The study examined factors such as the competence of internal audit staff, the size of the internal audit unit, the relationship between internal and external auditors, management support for the internal audit function, and the independence of the internal audit unit. Data were collected from internal auditors, accountants, and management of sampled SOEs and were analyzed using SPSS. The study concluded that management support was the most significant determinant of internal audit effectiveness. Other significant factors included the size of the internal audit unit, staff competence, auditor independence, and the relationship between internal and external auditors.

Madi (2012) explored the relationship between audit committee effectiveness and voluntary disclosure in Malaysia. The study also examined the moderating effect of corporate board governance and concentrated ownership on the relationship between audit committee effectiveness and voluntary disclosure. Using annual reports from 292 firms listed on Bursa Malaysia for 2006 and 2009, the study found that audit committees with a higher proportion of independent members, members with accounting expertise, and members holding multiple directorships, were significantly associated with higher levels of voluntary disclosure. The size of the audit committee also had a significant impact. However, none of the board attributes studied appeared to influence voluntary disclosure, and neither board governance nor concentrated ownership moderated the relationship between audit committee effectiveness and voluntary disclosure.

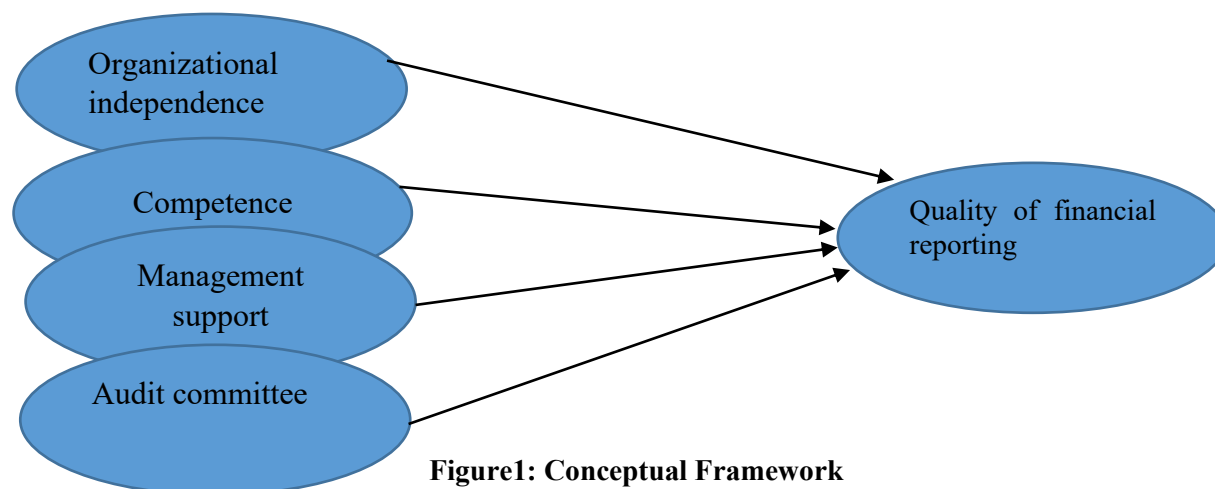
Onyango (2014) studied the influence of internal controls on the performance of local governments in Tanzania. The study aimed to establish the relationship between internal audits, activity control, information communication, risk assessment, and the performance of local governments. A descriptive research design was used, and primary data were collected using close-ended questionnaires administered to key informants. Descriptive statistics, including mean, standard deviation, and standard error, were used to summarize the variables, while regression analysis was applied to model the hypothesized relationships. The study found that local governments failed to implement internal audit recommendations from the Auditor General to improve financial resource management. Additionally, it revealed non-adherence to weekly reporting and the absence of meetings to discuss activity progress. There was also no clear separation of roles among employees, and work was often left unchecked. The study recommended exposing local government leaders to international forums and conferences to learn best practices for leveraging internal audits in managing financial resources.

Jachi & Yona (2019) investigated the impact of internal audit independence on transparency and accountability in Zimbabwe's local authorities. Using semi-structured questionnaires, survey data were collected and analyzed through correlation and regression techniques. The study measured transparency and accountability using variables such as management perception, organizational policy, auditees' cooperation, and organizational risk exposure. The findings demonstrated that an independent internal audit function is positively associated with transparency and accountability. The study concluded that the presence of an independent internal audit function is critical for promoting transparency and accountability in organizations.

## **2.4. Analysis of Research Gap**

Internal audit practices and the quality of financial reporting are crucial in the operations of the public sector. Internal audits play a vital role in enhancing both demand and supply accountability. A review of the empirical literature, including concepts and theories, reveals that some studies, such as Madi (2012) and Musah (2018), focused on the characteristics of internal audit effectiveness. Other studies, including Busee (2013), Bogonko & Gathogo (2016), Bediako-Ahoto (2013), and Jachi & Yona (2019), explored the mechanics of internal auditing in both public and private entities. Additionally, some studies examined internal audit practices in the context of general organizational operations. For instance, Onyango (2014) investigated the relationship between internal control and the performance of local governments, while Cohen & Sayag (2010) emphasized the role of top management as a key determinant of internal audit effectiveness.

However, the existing literature does not clearly demonstrate how internal audit practices influence the quality of financial reporting in the public sector. Moreover, previous studies have largely overlooked organizational culture as a critical aspect of internal audit practices. This gap highlights the need to investigate the relevance of internal audit practices in enhancing the quality of financial reporting in public sector organizations, particularly in light of the adoption of the International Public Sector Accounting Standards (IPSASs). Based on the identified gap, this study is guided by the conceptual framework indicated in Figure 1.



**Figure1: Conceptual Framework**

### 3. Methodology of the Study

The study was conducted in Tanzania and utilized a correlational research design (Kaawaase et al., 2021). The target population consisted of employees from RITA, WMA, and NHIF. Key respondents included audit committee members, senior management, department heads, internal auditors, accountants, and other key officers operating within these public organizations. To determine the appropriate sample size and minimize biases, the study employed a simple random sampling technique. A sample of 160 respondents was selected from RITA, WMA, and NHIF, following the formula provided by Tejada & Paunzalan (2012). The sample size was calculated using the formula,

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

where,

N, population size=267 people,

e, margin of error =5%=0.05

The researcher employed questionnaires to collect primary data from the key respondents and then subjected them to analysis to enable the formation of evidence-based conclusions.

#### 3.1. Data Analysis and Model Specification

The data were cleaned, coded, analyzed, and interpreted using quantitative data analysis techniques. The collected data were analyzed using the Statistical Package for Social Sciences (SPSS) software to compute percentages, frequencies, and Ordinary Least Squares (OLS) regression. Regression analysis was conducted to examine the relationship between the independent and dependent variables. The general form of the equation used to predict the dependent variable from the independent variables is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where;

Y = Quality of financial reporting

X<sub>1</sub> = Organizational independence

X<sub>2</sub> = Competence of internal audit staff

X<sub>3</sub> = Management support

X<sub>4</sub> = Audit committee

β<sub>0</sub> = Co-efficient of the model (constant)

β<sub>1</sub> – β<sub>4</sub> = Beta Co-efficient of Determination

ε = Stochastic Error Term

#### 4. Presentation and Discussion of the Results

Table 1 presents the adjusted R, R<sup>2</sup>, R, and the standard error of estimation, which were used to evaluate how well the regression model fits the data. In this case, R = 0.855 indicates a strong and positive general relationship between the variables. The R<sup>2</sup> value represents the proportion of the total variation in the dependent variable that can be explained by the independent variables. The study found that the R<sup>2</sup> value was 0.730, indicating that 73% of the variance in the dependent variable can be explained by the independent variables. Furthermore, the Adjusted R<sup>2</sup> value was 0.687, meaning that the independent variables account for 68.7% of the total variance in the dependent variable within the linear model.

**Table 1: Model Fitness**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1     | .855 <sup>a</sup> | .730     | .687              | .55591                     | 2.233         |

a. Predictors: (Constant), Audit committee, Organization independent, management support, Competence of internal audit staff

b. Dependent Variable: Quality of Financial Reporting

##### 4.1. Statistical Significance

Statistical significance indicates whether the overall regression model is appropriate for the data. The results from Table 2 show that the independent variables statistically predict the dependent variable. The significance (Sig.) value is 0.000, which is less than 0.05. This indicates that the regression model, as a whole, statistically and significantly predicts the outcome variable.

**Table 2: ANOVA<sup>a</sup>**

| Model      | Sum of Squares | df | Mean Square | F      | Sig.              |
|------------|----------------|----|-------------|--------|-------------------|
| Regression | 20.941         | 4  | 5.235       | 16.940 | .000 <sup>b</sup> |
| Residual   | 7.726          | 25 | .309        |        |                   |
| Total      | 28.667         | 29 |             |        |                   |

a. Dependent Variable: Quality of Financial Reporting

b. Predictors: (Constant), Audit Committee, Organization independence, management support, Competence of internal audit staff

## 4.2. Estimated Model Coefficients

The coefficient table (Table 3) provides essential information for researchers to predict the dependent variable based on the independent variables and to assess whether the independent variables contribute statistically to the model (as indicated by the "Sig." value). A p-value lower than 0.05 is recommended, as it indicates a high level of statistical significance.

The results show that all independent variables; organizational independence, competence of internal audit staff, management support, and the audit committee were statistically significant to the quality of the financial report, as their p-values were less than 0.05. This implies that organizational independence, the competence of internal audit staff, management support, and the audit committee all influence the quality of financial reporting.

**Table 3: Coefficients<sup>a</sup>**

| Model                                     | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. | 95.0% Confidence Interval for B |             |
|-------------------------------------------|-----------------------------|------------|---------------------------|-------|------|---------------------------------|-------------|
|                                           | B                           | Std. Error | Beta                      |       |      | Lower Bound                     | Upper Bound |
| (Constant)                                | .365                        | .377       |                           | .969  | .342 | .411                            | 1.141       |
| Organization Independence (OI)            | .219                        | .091       | .282                      | 2.409 | .024 | .032                            | .405        |
| Competence of internal audit staff (CIAS) | .326                        | .093       | .426                      | 3.492 | .002 | .134                            | .519        |
| Management Support (MS)                   | .225                        | .100       | .249                      | 2.243 | .034 | .331                            | .418        |
| Audit Committee (AC)                      | .565                        | .126       | .510                      | 4.491 | .000 | .306                            | .824        |

a. Dependent Variable: Quality of Financial Reporting (QFR)

In this case, all the predictor variables produced statistically significant results of  $p < 0.05$ .

The equation for the regression model is expressed as:

$$QFR = 0.219OI + 0.326CIAS + 0.225MS + 0.565AC + \varepsilon$$

## 5. Discussion of the Findings

The results of the regression analysis indicate that organizational independence had a statistically significant effect on the quality of financial reporting. Furthermore, the findings show that an improvement in organizational independence would enhance the quality of financial reporting by 0.219 units. These results are supported by Bogonko & Gathogo (2016), who, in their study, concluded that organizational independence plays a crucial role in improving the quality of financial reporting.

The analysis also reveals that the competence of internal audit staff had a statistically significant influence on the quality of financial reporting. Additionally, an improvement in the competence of internal audit staff would result in an increase of 0.326 units in the quality of financial reporting, a result which is supported by Cohen & Sayag (2010). To ensure effectiveness, internal audit functions must be adequately resourced to meet both the quantitative and qualitative demands of audits, as well as the organization's goals.

The results further indicate that management support had a statistically significant and positive impact on the quality of financial reporting. An increase in management support would improve the quality of financial reporting by 0.225 units. These findings are consistent with those documented by Musah (2018).

Finally, the results show that the audit committee had a statistically significant and positive effect on the quality of financial reporting. Specifically, an improvement in the audit committee would enhance the quality of financial reporting by 0.565 units. These findings are aligned with Madi (2012), who studied the audit committee effectiveness and voluntary disclosure in Malaysia. Madi's empirical results revealed that a higher proportion of independent directors on the audit committee and the presence of independent committee members significantly contribute to higher levels of voluntary disclosure.

## **6. Conclusions and Recommendations**

The study established that all the variables examined—management support, organizational independence, staff competence, and the audit committee—are key determinants of the quality of financial reporting in public sector organizations. Notably, the findings related to staff competence, and management support align with previous studies. The study recommends organizations' management to place greater emphasis on supporting internal auditors, particularly in the adoption of audit reports. This is a critical measure of internal auditors' effectiveness and a key factor in enhancing fraud detection. Management can also support internal audit functions by ensuring adequate staffing levels and sufficient budget allocations for the department. Additionally, the study suggests that management should ensure that internal auditors are recruited in appropriate proportions to address shortages and improve audit effectiveness. Furthermore, management should establish programs aimed at advancing internal audit practices through targeted training and digital transformation.

## **References**

- Adams, M. B. (1994). Agency theory and the internal audit. *Managerial Auditing Journal*, 9(8), 8–12.
- Ali, A. M., Gloeck, J. D., Ali, A., Ahmi, A., & Sahdan, M. H. (2007). Internal audit in the state and local governments of Malaysia. *Southern African Journal of Accountability and Auditing Research*, 7(1), 25–57.
- Alzeban, A., & Gwilliam, D. (2014). Factors affecting the internal audit effectiveness: A survey of the Saudi public sector. *Journal of International Accounting, Auditing and Taxation*, 23(2), 74–86.
- Alzeban & Sawan. (2013). The role of internal audit function in the public sector context in Saudi Arabia. *African Journal of Business Management*, 7(6), 443–454.
- Arena, M & Azzone, G (2009). Identifying Organizational Drivers of Internal Audit Effectiveness' *Int. J. Audit*, 13:43-60
- Basri, H., & Nabihah, A. S. (2014). Accountability of local government: The case of Aceh Province, Indonesia. *Asia Pacific Journal of Accounting and Finance*, 3(1), 1–14.
- Bediako-Ahoto, R. (2013). *Determining the effectiveness of internal auditing in our churches. case study: the Presbyterian church of Ghana Christ the king congregation* [PhD thesis].
- Bogonko and Gathogo, (2016). Factors that influence the local government of Nakuru internal audit efficiency, *Journal of International Accounting, Auditing and Taxation*. 24 : 74-97.

- Busee, B. J. (2013). *Factors affecting the effectiveness of the Internal audit in business risk management in the Private sector in Tanzania: A case of nbc* [PhD Thesis]. Mzumbe University.
- Chan, J. L. (2006). IPSAS and government accounting reform in developing countries. *Accounting Reform in the Public Sector: Mimicry, Fad or Necessity*, 31–42.
- Cohen, A., & Sayag, G. (2010). The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations 'Australian Accounting Review 20(3), 296-307 DOI:10.1111/j.1835-2561.2010.00092.
- Dawuda, A. (2010). *A study into the effectiveness of the internal audit units in the public sector in promoting good corporate governance: The case of the metropolitan, municipal and district assemblies in the northern region of Ghana* [PhD Thesis]. University of Cape Coast.
- Dawuda, A., Ataribanam, S., & Joseph, A. (2017). An exploratory study on management support services and its effects on the quality service delivery of internal auditors in the Northern Ghana. *International Journal of Accounting Research*, 5(2), 2–5.
- Daft, R. L. (2015) *Management*: Cengage Learning.
- Hughes, J. W. (2007). Transitioning from current basis to full accrual basis of accounting for governments in developing countries. *The Journal of Government Financial Management*, 56(3), 20.
- Halimah, N. A., & Radiah O. (2009). The Effectiveness Internal Audit of Malaysian Sector. *Public Journal of Modern Accounting and Auditing*, Serial no 52
- Hutagalung, E. M., & Hum, M. (2016). The role of fiscal decentralization state finance in order strengthen regional fiscal capacity in Indonesia. *International journal of social sciences*, 30(1).
- Islam, J., & Hu, H (2012). A Review of Literature on Contingency theory in Managerial Accounting. *African Journal of Business Management*, Vol 6 (15), pp. 5159-5164.
- Jachi, M., & Yona, L. (2019). The impact of independence of internal audit function on transparency and accountability case of Zimbabwe local authorities. *Research Journal of Finance and Accounting*, 10(5), 64–77.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Kaawaase, T.K., Nairuba, C., Akankunda, B & Bananuka, J. (2021). Corporate Governance, Internal Audit quality and Financial Reporting Quality of Financial Institutions. *Asian Journal of Accounting Research*, Vol. 6, No. 3.
- Laković, T., Cerović, J., & Stanovčić, T. (2016). The Internal Audit Function and the Quality of Financial Reporting: Empirical Evidence from Montenegro. *Management Internal Conference–MIC, 2016*(Pula Croatia 1–4 Jun 2016), 95–109.
- Madi, H. K. (2012). *Audit Committee Effectiveness and Voluntary Disclosure in Malaysia: PRE and Post Introduction of the Revised Malaysian Code on Corporate Governance 2007* [PhD Thesis]. Universiti Utara Malaysia.
- Menza, S. K., Aga, A., & Jerene, W. (2019). Determinants of internal audit effectiveness (IAE) in the Ethiopian public enterprise, case of Southern region. *Journal of Resources Development and Management*, 52(1), 22–36.
- Mohamad, M; Abdullah, W. M and Deris, M. S (2012). Audit delay in Local Authorities; An exploratory study in Kedah, Perak and Kelantan. *International conference on Economic, Business innovation; IPEDR*, Vol.38

- Mohd-Zain, Z., Turner, S. L., Cerdeño-Tárraga, A. M., Lilley, A. K., Inzana, T. J., Duncan, A. J., ... & Crook, D. W. (2004). Transferable antibiotic resistance
- Musah, A. (2018). Determinants of internal audit effectiveness in State-Owned Enterprises (SOEs) in Ghana.
- Njiru, D. (2016). *The effect of internal controls on financial performance of public water companies in Kenya* [PhD Thesis]. KCA University.
- Nteziyayo, J. P. (2014). *Internal audit and growth of public institutions* [PhD Thesis]. Uganda Christian University.
- Oladejo, M., Yinus, S.O., Shitu, S & Rutano, A. (2021). Internal Audit Practices and financial reporting quality: Perspective from Nigeria quoted foods and beverages firms. *KIU Interdisciplinary Journal of Social Science*, 2(1), 410-428
- Ongeri, S. N., Okioga, C., & Okwena, D. K. (2013). An assessment of the effectiveness of internal audit systems in the management of decentralized funds in Kenya: A study of local authority transfer fund in Kisii Municipal Council. *Scientific Conference Proceedings*.
- Onyango, R. O. (2014). *Influence of internal controls on performance of county governments in Kenya* [PhD Thesis]. University of Nairobi.
- Othman, R. R., Othman, R. R., & Jusoff, K. (2009) 'The effectiveness of internal audit in Malaysian public sector' *Journal of Modern Accounting and Auditing*, 5(9), 53–63.
- Polzer, T., Gårseth-Nesbakk, L., & Adhikari, P. (2019). "Does your walk match your talk?" Analyzing IPSASs diffusion in developing and developed countries. *International Journal of Public Sector Management*, 33(2/3), 117–139.
- Riyadh, H. A. (2017). The Influence of internal audit function on promoting effective corporate governance by using the management support in commercial Iraqi banks. *The International Journal of Accounting and Business Society*, 25(2), 71–83.
- Roziani, A. (2001). Audit committee composition and auditor reporting: *A study in Malaysian environment* [PhD Thesis]. Universiti Teknologi MARA.
- Tapiwa, M. (2013). Independence of the Internal Audit in Public Sector Organizations: A Case of Chitungwiza Municipality. *International Journal for Management Science and Terchnology*, 2(4), 54–57
- Tejada, J. J., & Paunzalan, J. (2012) 'On the Misuse of Slovin'sFormular'. *The Philippine Statistician*, 129-136.
- United Nations. (2015). Responsive and Accountable Public Governance 2015' *World Public Sector Report*, 1-105. Available at: <https://desapublications.un.org> (Accesed13 October 2022)
- Van Staden. (2009). The profile of the chief audit executive as a driver of internal audit quality. [https://scholar.google.com/scholar?hl=en&as\\_sdt=0%2C5&q=Van+Staden+%26+Steyn%2C+2009&btnG=](https://scholar.google.com/scholar?hl=en&as_sdt=0%2C5&q=Van+Staden+%26+Steyn%2C+2009&btnG=)