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Munim Matin Afridi

Assistant Director

Auditor General of Pakistan

Federal Board of Revenue, Pakistan

e-mail: munim_matin@hotmail.com

Malik Asfandyar Khan

Assistant Commissioner

Federal Board of Revenue, Pakistan

e-mail: masfandyar14@gmail.com

Issues Surrounding Public Sector Auditors in Developing Countries

Abstract. The commonality of problems surrounding a broad subject of audit shares similarities in the domain of public sector in developing countries. This paper presents the issues faced by public sector auditors in developing countries by analyzing the data collected through quantitative and qualitative means. The prime focus is to analyze the issues by identifying the prevailing causes of these problems through research conducted and literature reviewed. A total of 300 auditors, who work in the public sector under the direct and indirect supervision of Auditor General of Pakistan (AGP), are sampled for this research. The auditors are divided into two categories, which are Internal and External Auditors, that equally contribute to the function of accountability for the Supreme Audit Institution (SAI) of developing country like Pakistan. Pakistan is taken as a sample country for this research due to its similarities of audit procedures among SAIs of all developing countries. The auditors are categorized based on their age group, qualification and nature of work. Furthermore, a number of issues are identified, such as Staff Shortages, lack of Adequate Time, External Pressure Groups, Record Production Issues, lack of Digitalization, Concern of Personal Security and Lengthy Reporting Procedures. These issues are derived from the data collected in this research and are further analyzed to investigate any potential causes of bureaucratic and cultural nature that are also common among other developing countries. Furthermore, a comparison is also drawn and deliberated upon in this paper that focuses on the Issues faced by Internal and External Auditors of a Public Sector in a developing economy.

Keywords: *public sector; external auditors; internal auditors; pressure groups; SAI.*

JEL Code: M42; M48; H11.

Formulas: 0, fig. 1, table 2, bibl.: 19

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Introduction. The Government of Pakistan (GOP) is considered the largest employer in the country with almost 3.2 million employees (PPARC, 2021). The public sector entities under the GOP ranges from a unique diversity of Ministries and Armed Forces to Public Works and even Autonomous Bodies. All of these entities in this developing country has a very constitutionally defined commonality, which is the Auditor General of Pakistan (AGP), that directly and indirectly controls the purview of the public sector audit (GOP, 1973). However, even the constitutionally created mandate in a developing country does not come without challenges for the AGP in implementing accountability in Public Sector. In Asia, the Supreme Audit Institution directs and controls the expenditures and audits of public sector entity and coordinates indirect administration of Internal Audit and direct administration of External Audit. The audit of public sector entities is highlighted in the Financial Audit Manual, which explains the codal formalities and procedures related to the audit (AGP, 2012). The purpose of this paper is to highlight the issues that are faced by the auditors in auditing different entities of the public sector. This paper focuses on both types of auditors for a detailed analysis and demonstrates through the research conducted, the similarities and dissimilarities of issues between the nature of auditors. The issues are then discussed in detail highlighting potential cultural and bureaucratic challenges associated with them, that are highly prevalent in a developing country. However, the apex Supreme Audit Institution (SAI) have the responsibility to ensure the Transparency, Impartiality, Integrity and Independence, in compliance with its Code of Conduct (AGP, 2012). Furthermore, this research also incorporates the audit principles highlighted by AGP, which are common among the public sector auditing departments among developing nations.

Literature Review. The purview of this research demanded a literature review of specified nature of public sector audits among developing countries. The public sector of Pakistan, was taken as a sample in this research, as it has a commonality in the nature and objective of audit among the SAI of various developing countries. Nevertheless, Qaiser & Khan (2010) in their research demonstrated challenges with governance targeting the lack of digitalization in the public sector. Their paper was taken to understand the procedural flow of the public sector and to dissect the issues presented in this paper. Arfeen & Khan (2019) also highlighted current governance challenges in public sector, which contributed in understanding the issues presented by the auditors.

Johnson (2011) in his paper investigated the audits of public sector and his research contributed in understanding the nature of audit for public sector entities. However, his research did not classify the diversity of country's audit procedures nor highlighted any issues pertaining to it. This paper specifically works on the auditor's issues of a developing country. The quality of audit for public sector was also studied for this research to better understand the nature of audits. The quality of audit was benchmarked in a research by Deis and Giroux (1992), which served to evaluate the old auditing techniques still used by auditors of developing nations such as Pakistan. Furthermore, Hamid (2023) in his research presented the evolving challenges in external audit in the public sector which can be coupled with externalities mentioned in the research by Afridi and Bilal (2021). The research presented by Hamid (2023) greatly helped in understanding the nature of challenges that are faced while conducting the audit, for assistance of this paper. However, his research is generic and focuses on the global nature of public sector external audit only.

Kayrak's (2016) paper was reviewed for understanding challenges faced by SAIs in Auditing public sector entities. However, his paper was limited to the issue of corruption and sampled Turkish SAI for his research. His research contributed in understanding certain criticalities of Issues prevailing in the Turkish SAI. Furthermore, Cordery et. al. (2023) in their paper examined the state responsibility of public sector audit. Their research indicated ways to improve public sector audit by analyzing and correlating the SDGs and performance of the government. Their research was mainly based on the SAIs of India and thus helped in partly evaluating issues related to SAIs, in a similar cultural context. Cordery et. al. (2023) had his research focused on India through comparative

analysis of audit and SDGs. The paper contributed to understanding the performance of audit in India and drawing further similarities among other developing countries as well.

Nevertheless, the research conducted by Polizzi and Scannella (2023) indicated the issues and challenges faced by internal auditors of public sector organizations and that provided a more refined perspective on the kind of problem we would be looking for in this research. The research by Polizzi, however, lacked the perspective of external audit and also provided a more generic view of public sector in developed countries only. The research presented in this paper dives deeper than the literature reviewed by evaluating the hindrances faced by both the external and internal public sector auditors of developing countries by sampling Pakistan.

Methodology. This paper demonstrated data collection through a combination of quantitative and qualitative methods. A questionnaire was used to inquire about particular issues related to public sector auditors. Furthermore, structured interviews were conducted from the auditors to gather data for further insight in the research. The participants were divided into two major categories: Internal Auditors and External Auditors. Finally, a comparative analysis has also been done in this paper to compare the issues presented by external and internal auditors and to point out the outliers and its potential causes.

Results. The auditors chosen for this study were a combination of external and internal auditors of various departments and positions of public sector. A total of 300 auditors were corresponded with and the result of questionnaires and structured interviews are summarized in Table. 1 and 2 in this paper. Among the 300 auditors, 250 were external auditors and 50 were internal auditors of the public sector entities. After data gathering from multiple sources, a cluster of problems were identified and placed in their respective category. These problems were then inquired upon, or added to, during the interviews from auditors to better understand the intensity of the problem. Table. 1 presents the issues and its criticality through the ratio of agreeableness, having no preference and disagreeableness, of the internal and external auditors of public sector.

Table 1. Results on Issues Identified

Sr. No.	Nature of Issue	Internal Auditors (N=50)			External Auditors (N=250)		
		Yes	No Preference	No	Yes	No Preference	No
1	Staff Shortage	32	6	12	201	15	34
2	Lack of Adequate Time	24	5	21	222	9	19
3	Lack of Support from Audit Management	8	10	32	204	7	39
4	Concern of Personal Security	36	4	10	186	20	44
5	External Pressure	38	1	11	198	5	47
6	Record Production Issues	12	3	35	229	12	9
7	Lack of Digitalization	41	2	7	174	13	63
8	Lengthy Reporting Procedures	37	4	9	187	16	47
9	Lack of Training on Other (Performance, IT, Forensic) Audit	40	3	7	209	4	37

Source: prepared by the authors

Table. 2 indicates the personal characteristics of the public sector auditors in Pakistan. The age, educational qualifications and the type of position held in the public sector was collected during the interviews. The table indicates that a majority of auditors fall between the age bracket of 29 to 39 years of age. Furthermore, a majority of them either had a Bachelor's degree or an ACCA/CA. Out of 300 Auditors, 228 had a Bachelor's or a Professional Qualification. Whereas, only 53 had a master's degree and just 19 had a PhD. This detailed analysis facilitated a correlation analysis and added to the insight of this paper.

Table 2. Characteristics of Auditors

Auditor Type	Age Bracket			Educational Background			Positions Held	
	28 and Below	29 – 39 years	40 and above	Professional Qualification / Bachelors	Masters	PhDs	Executive	Non-Executive
Internal Auditors (50)	14	23	13	32	12	6	8	32
External Auditors (250)	81	112	57	196	41	13	20	230

Source: prepared by the authors

A weighted average comparison is done to understand the similarities and dissimilarities of the concerns of external and internal public sector auditors. The pattern of issues between external and internal auditors were similar except in case of ‘Lack of Support from Management’, ‘Record Production Issues’ and ‘Inadequate Time’. The comparative analysis demonstrates the similarity of problems between the two types of auditors and warrants further reason where a deviation has occurred. Figure. 1 summarizes the weighted comparison of each issue which has also been contemplated in detail in the discussion section of this paper.

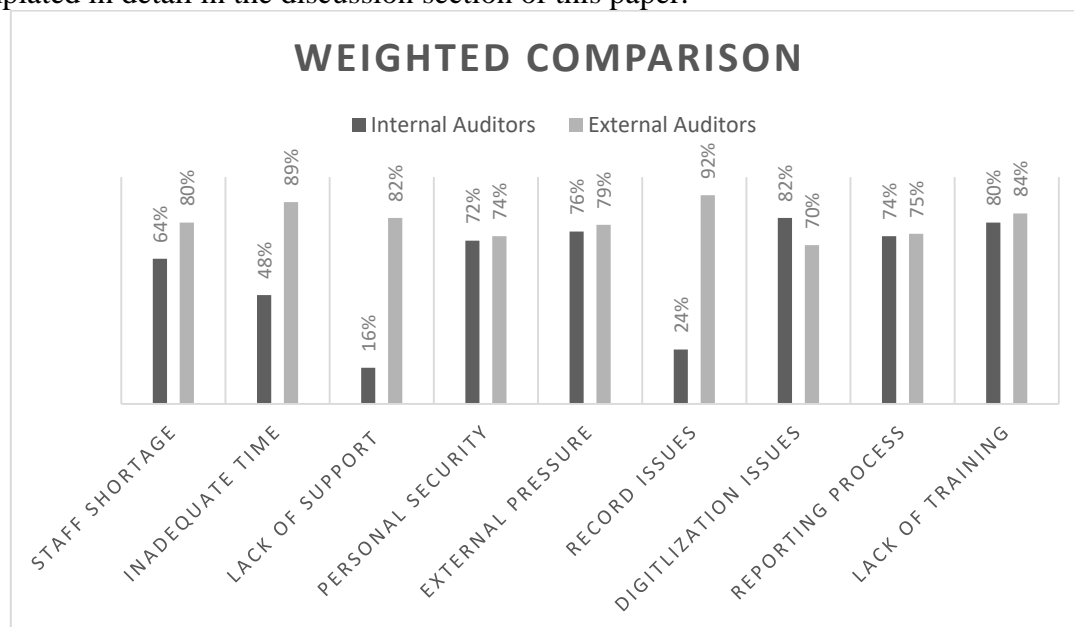


Figure 1. Weighted Comparison of Issues of Internal and External Auditors

Source: prepared by the authors

With regard to External Auditors, the most significant issue highlighted during this research was Record production issues. The priority of issues were highlighted through consensus of agreeableness. However, the criticality of issues was not with the similar intensity of agreeableness with Internal Auditors as it was with External Auditors. The most highlighted issue for Internal Audit was Lack of Digitalization, and the issue of Lack of Support had the least priority for them.

Discussion. The results of this research put forward a number of issues that were at hand experienced by the public sector auditors. The data was collected through questionnaire by the 300 participants; and then analyzed by structured interviews to prioritize list of issues to scrutinize the underlying roots. The issues explained in this research are extracted from the results and the literature reviewed.

1.1 Staff Shortage:

From the data collected in this research, staff shortage was amongst the highest concerns for External Auditors with around 80% approval scores. Whereas, 60% of the sampled Internal

Auditors agreed with the concern. It was cemented that the accountability procedure would be much more effective if more staff was deployed for regularity or certification audit. However, the process of hiring of government sector employees takes an abundant amount of time, causing delays due to procedural irregularities (Ashraf, 2017).

1.2 Inadequate Time:

With an agreeableness of almost 89% at around 222 out of 250 auditors, lack of adequate time for audit was amongst the major concerns among external auditors. Whereas, at 48% agreeableness, it was not the case for Internal auditors, as they did not indicate this issue to be of the highest priority. The cause of dissimilarity was indicated to be in the nature of work as external auditors follow a timeline defined by the AGP; where they need to audit multiple government entities in accordance with the Annual Audit Plan (AGP, 2023). On the other hand, internal auditors had similar nature of audit for the same entity, but eliminating time restraint.

1.3 Lack of Support from Management:

Support from management at the time of audit is an absolute necessity and in case of Internal Audit, the auditors had a significant support from the management for perusal of audit within the entity. This may have been due to a situation of entity affiliations which demands compliance from management in correlation with auditor compliance (Bhattacharjee & Brown, 2018). However, in case of External Audit, the auditors usually exercise the audit principles of due diligence and care with minute affiliations. The executive interference is quoted by external auditors as a method where accountability is jeopardized when auditing public sector entities. The nature of affiliations is more prone with public sector executives as compared to with auditors.

1.4 Concern of Personal Security:

The concern for personal safety is of the utmost importance and, therefore, should be safeguarded in case of any hindrance (Hillison et. al., 1999). The issue of personal security was raised primarily by both external and internal auditors of public sector and they equally agreed for it to be a priority. The issue was raised when the code of ethics of political neutrality was asked to be violated during audits (OAS, 2023). However, a significant support from audit management has been provided in the matter but the concern exists.

1.5 External Pressures:

The concern for violation of Independence, a Principle of Audit, is very common as auditors in public sector are repeatedly pressurized to drop Audit Opinions (Sutton, 1997). The external and internal auditors were both in agreement that this is a prime problem that independence must be addressed by the authorities. The existence of the issue was agreed upon by both the type of auditors, thus, cementing its presence. Out of 250 external auditors, 198 agreed with the issue and out of 50 internal auditors, 38 were agreeable.

1.6 Production of Record:

During Planning and Activity phase of the audit, a list of records is provided to the entity for provision, after understanding their business and components. The public sector auditor is complied with the requirements he requested. However, in many instances, the entity fails to provide the auditors with the requisite records for audit. This is prevalent public sector and majorly in case of external audit with a 92% agreeableness. This is not a primary issue when internal audit is conducted. The reason for this dissimilarity may relate to the level of accountability consequence for the entity. The external auditors, coupled with their paucity of time of audit, are handicapped due to non-provision of requisite records.

1.7 Lack of Digitalization:

The public sector due to its size and nature of work has relied heavily on paper work rather than digitalization (Arfeen & Khan, 2019). A number of steps have, however, been taken within the SAI to counter this issue and to streamline the accountability phases. The Audit Management Information System (AIMS) was, in the recent years, launched for official audits but has been lagging behind due to a number of reasons which warrants a separate research (Tribune, 2021).

Currently, the paper work has led to an increased work load and lesser sample sizes, leading to less effective audits in the public sector.

1.8 Lengthy Reporting Procedures:

The audit reporting is a fundamental requirement in regulatory and certification audit. The reporting procedures not only include the final report but also the initial reporting, mid reporting and the post-audit reporting formalities; that the auditors tend to find them as a hindrance to effective official work. The internal and external auditors both found that the lengthy reporting procedures were a hindrance to other audit duties as every audit team or individual is burdened with numerous other tasks for completion.

1.9 Lack of Trainings for Other Audits:

The certification and regulatory audit is a day to day affair for public sector auditors, however, the research indicated that audits of other nature such as Performance Audit, Forensic Audit or Information System Audit are greatly neglected. Therefore, Internal and External Auditors established, in a majority, that trainings for such kinds of audit are required. The lack of trainings in specialized audits are not sought after and only compliance to the regulatory requirements are taken as a priority in Annual Audit Plans according to this research.

Conclusion. The idea of accountability is deep rooted within the mandate of the Supreme Audit Institution (SAI). Therefore, accountability is ensured through safeguarding public funds by effective implementation of accountability mechanisms, otherwise known as Audits. This research focused on the public sector auditors and fixated on the issues that were prevalent in the audits which can be replicated in other developing economies. The participants were divided into type of auditors based on nature of work to better analyze the intensity of issues. Therefore, after conducting research through multiple means, a number of issues were highlighted such as: Lack of Production of Records, External Pressures, Inadequate Time, Personal Security, Lack of support from audit management, Staff Shortages and many more. A correlation was also done to compare the issues with the external and internal auditors by relating to their nature of work. Furthermore, this paper is applied on public sector auditors and can be used for correlation with private sector auditors in developing countries as well in the future.

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Мунім Матін Афріді

Помічник директора,

Генеральний аудитор Пакистану

Федеральне управління доходів, Пакистан

e-mail: munim_matin@hotmail.com

Малік Асфандяр Хан

Помічник комісара

Федеральне управління доходів, Пакистан

e-mail: masfandyar14@gmail.com

Проблеми, пов'язані з аудитором державного сектора в країнах, що розвиваються

Анотація. Спільність проблем, пов'язаних із широким предметом аудиту, має спільні риси в державному секторі в країнах, що розвиваються. У статті представлено проблеми, з якими стикаються аудитори державного сектору в країнах, що розвиваються, аналізуючи дані, зібрані за допомогою кількісних і якісних методів. Основна увага полягає в тому, щоб проаналізувати проблеми шляхом виявлення переважаних причин цих проблем за допомогою проведених досліджень і перегляду літератури. Для цього дослідження було відібрано загалом 300 аудиторів, які працюють у державному секторі під прямим і опосередкованим керівництвом Генерального аудитора Пакистану. Аудитори поділяються на дві категорії, які є внутрішніми та зовнішніми аудитором, які однаково сприяють функції підзвітності Вищого органу аудиту (ВОФК) країни, що розвивається, як Пакистан. Пакистан узято як країна-зразок для цього дослідження через схожість процедур аудиту в ВОФК усіх країн, що розвиваються. Аудитори поділяються на категорії за віком, кваліфікацією та характером роботи. Крім того, визначено ряд проблем, таких як нестача персоналу, брак достатнього часу, зовнішні групи тиску, проблеми з виробництвом звукозапису, відсутність оцифрування, занепокоєння особистою безпекою та тривалі процедури звітування. Ці питання впливають із даних, зібраних у цьому дослідженні, і далі аналізуються для дослідження будь-яких потенційних причин бюрократичного та культурного характеру, які також поширені в інших країнах, що розвиваються. Крім того, у статті також проведено та обговорено порівняння, яке зосереджується на проблемах, з якими стикаються внутрішні та зовнішні аудитори державного сектора в економіці, що розвивається.

Ключові слова: державний сектор; зовнішні аудитори; внутрішні аудитори; групи тиску; ВОФК.

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