

EFFECTIVENESS OF FINANCIAL AUDIT AND ITS IMPACT ON THE PERFORMANCE OF NON GOVERNMENTAL ORGANISATIONS IN RWANDA: A CASE STUDY OF AFRICA INDOOR RESIDUAL SPRAYING - RWANDA PROJECT

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Abstract: Most companies in Rwanda had not financially performed efficiently and one of the causes of their poor performance could be attributed to poor internal control systems and it's for this reason RRA together with other bodies in Rwanda obliged all organizations to put in place better systems of internal control systems such as internal audit departments because they had poor systems before. The above left the researcher willing to find out how important financial audit is towards the performance of non-governmental organizations in Rwanda ever since the RRA obliged these companies to put better internal control systems in place. Therefore, this study aimed at apprehending the effectiveness of financial audit in performance of non-governmental organizations in Rwanda with reference to Africa Indoor Residual Spraying Rwanda Project. The study was built on both general and specific objectives. The specific objectives were; to assess the effectiveness of financial audit practices in Africa Indoor Residual Spraying Rwanda Project, to analyze the performance of Africa Indoor Residual Spraying Rwanda Project and to identify the relationship between the effective internal audit and performance of Africa Indoor Residual Spraying Rwanda Project. In order to reach the achievement of the above objectives, a combination of questionnaires, interviews, documentary reviews and analyzing financial and other reports were used. The researcher adopted descriptive research design. Questionnaires were distributed to a group of 16 respondents; however, of the 16 questionnaires issued out, only 13 were filled and returned for analysis. This represented a response rate of 81.3%, which is excellent for use in making conclusion. Universal sampling technique was applied in the study. The data were analyzed using SPSS for descriptive statistics to test the effectiveness of financial audit in non-governmental and regression analysis was used to determine the nature and magnitude of the relationship among financial audit variables. Findings revealed that there were effective financial audit practices in Africa Indoor Residual Spraying Rwanda Project and this was supported by 76.9% of the respondents who strongly agreed on the objectivity of financial audit carried out by the project auditors. Secondly, research results represented by 76.9% of the participants cited better performance in the project of which this was much geared by an effective financial audit. Also, 84.6% of the study participants strongly agreed that better performance of the project depended on effectiveness of financial audit and this was supported by ANOVA test which indicated that a p-value of 0.012 which is less than alpha of 0.05 (5%) explained that the study's independent and dependent variables are associated. Internal auditors were recommended to continuously update themselves with the changing technologies and getting involved in frequent trainings by external experts.

Keywords: Financial audit, Performance, Non-Governmental Organization, Rwanda.

1. INTRODUCTION

For most of its history, financial audit has served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting to Board of Directors, Management or External Auditors. In recent times, however, a combination of different forces has led to a quiet revolution of the profession. Organizations have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal financial audit, and scarce resources must be deployed more efficiently to minimize and manage risks. Technological advancement makes it possible to track and analyze data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department (Ramamoorti, 2012). World over, it is acknowledged that the Financial Audit practices can possibly provide unparalleled administrations to management in the behavior of their obligations. There has been advance in achieving accord on what audit standards, governments and government offices ought to apply (Spencer, 2010). It is basic to note that both the International Organization of Supreme Audit Institutions (INTOSAI) and the Institute of Internal Auditors (IIA) have issued guidelines to manage inspecting in the general population area. On account of inside review and Audit Committees, rules must be in conformance with the Institute of Internal Auditors'- International Standards for the Professional Practice of Internal Auditing (Sayag, 2010).

1.1 Statement of the Problem:

Financial audits are in place to ensure safe custody of all the company's assets; to avoid misuse or misappropriation of the assets and to detect and safeguard against probable frauds. Control itself exists to keep performance of a company within what is expected by the organization, control built within a process is internal in nature and takes place with a combination of interrelated components such as social environment affecting behavior of employees, information necessary in control and policies and procedures (COSO, 2011). A lot of literature expressed that an internal audit can help a company to achieve its desired profitability target, service delivery and also prevent loss of resources and it can help to ensure reliable financial reporting. However, despite the financial audits that exist in different companies, financial performances (statements) are still poor (Ndege, 2012). This may be because the financial audit processes that are in the organization are weak or undermined by the management. Further studies suggest that, the financial audit will influence the organizational profitability by setting objectives; management can then identify risks to the achievement of those objectives. To address these risks, management of an organization may implement specific financial audit processes with the help of International Standards on Auditing (Chepkorir, 2010). According Rwanda Development Board (2015), most companies in Rwanda had not financially performed efficiently and one of the causes of their poor performance could be attributed to poor financial control systems and it's for this reason Rwanda Revenue Authority together with other bodies in Rwanda obliged all organizations to put in place better systems of financial control systems such as internal audit departments. Therefore, the above left the researcher willing to find out how important effective financial audit is towards the performance of non-governmental organizations in Rwanda ever since the RRA obliged these companies to put better financial control systems in place. In addition, Africa Indoor Residual Spraying Rwanda Project was used as a case study since it is one of the major NGOs in the country with the sounding financial funding and a lot of achievements.

1.2 Objectives of the Study:

1.2.1 General Objective:

The research was to apprehend the effectiveness and the impact of financial audit in performance of NGOs in Rwanda with reference to Africa Indoor Residual Spraying Rwanda Project.

1.2.2 Specific objectives:

1. To assess the effectiveness of financial audit practices in Africa Indoor Residual Spraying Rwanda Project.
2. To analyze the performance of Africa Indoor Residual Spraying Rwanda Project.
3. To identify the relationship between the financial audit and performance of Africa Indoor Residual Spraying Rwanda Project.

2. CONCEPTUAL FRAMEWORK

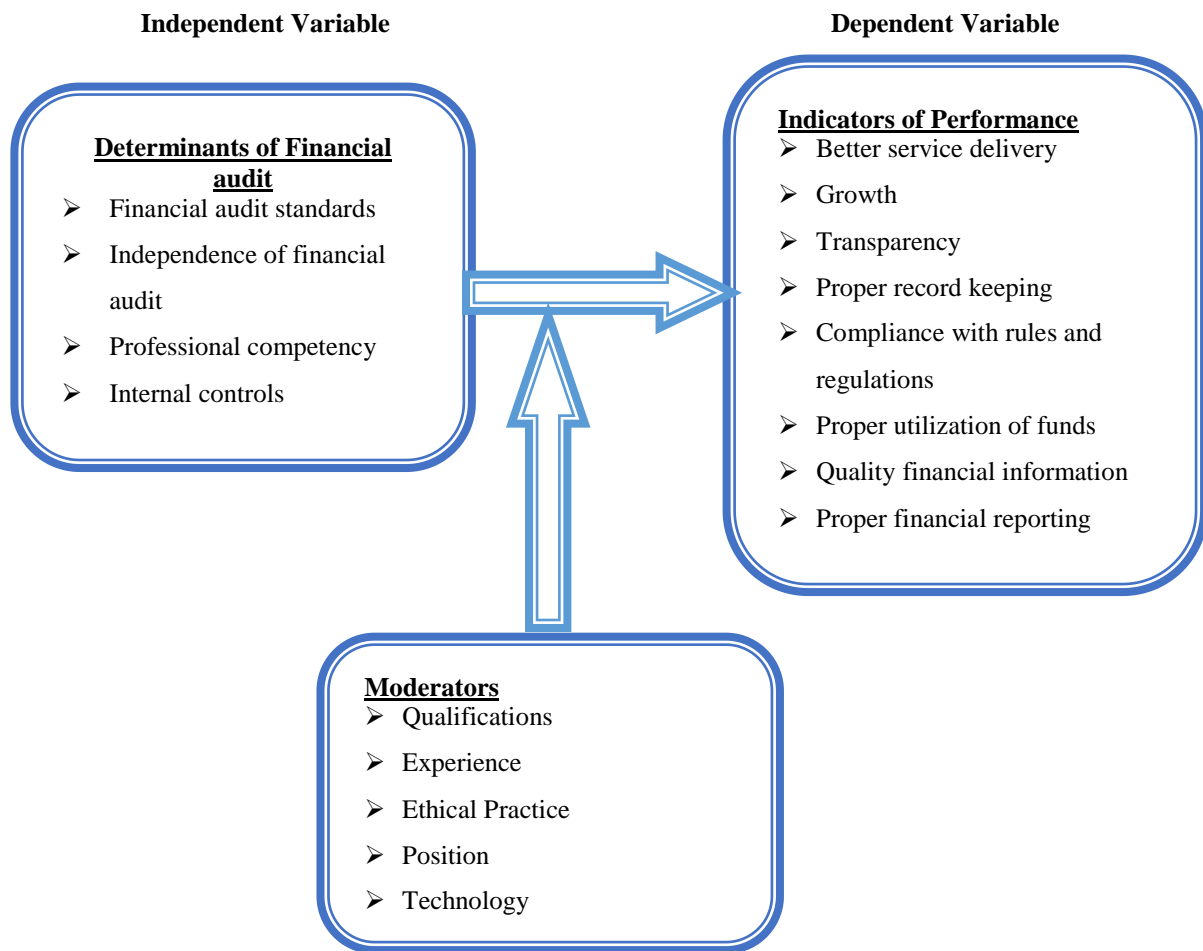


Figure 2.1: Conceptual Framework

3. RESEARCH METHODOLOGY

3.1 Research Design: This study applied both descriptive and quantitative research designs.

3.2 Target Population: The population of interest in this research constitutes of Africa Indoor Residual Spraying Rwanda Project staffs. In line with this, the target population was 16 employees of Africa Indoor Residual Spraying Rwanda Project working in finance and operations departments, in addition to management team.

3.3 Data Collection instruments: In carrying out this study, primary data were collected through structured interview and self-administered questionnaire. In designing questionnaires to be addressed to the Africa Indoor Residual Spraying Rwanda Project staff in the specified departments, the researcher used Likert scale to measure the staff's appreciation level on financial audit and their appreciation on performance level. Using Likert Scale, the staff indicated whether they strongly agree (SA), agree (A), Undecided (U), Disagree (D), or Strongly Agree (SD). The items for the said scale are gathered for related research study of Kothari, (2004) where these authors used Likert Scale to measure such variables mentioned above.

3.4 Data processing and analysis: The researcher used the Statistical Package for Social Sciences (SPSS) version 22.0 in coming up with the statistical analysis for the study. Ridley and D'Silva (2011) urged that SPSS is one of the most widely used available and powerful statistical software packages that covers a broad range of statistical procedures, which allowed a researcher to summarize data (e.g. compute percentages, means and standard deviations), determine whether there are significant differences between groups, examine relationships among variables, and graph results. Therefore, after obtaining information which the researcher felt that it was so necessary and enough for preparation of research report, the researcher employed qualitative data analysis which was used to analyze data is obtained from the field. With the help of SPSS, the researcher applied Descriptive Statistics. In addition to Descriptive Statistics, the study used regression analysis and correlation analysis.

4. SUMMARY RESEARCH FINDINGS

4.1 Assessment of effectiveness of financial audit practices in AIRSRP

Table 1: Acceptance level of respondents on AIRSRP financial audit effectiveness

Statements	5		4		3		2		Total	
	F	%	F	%	F	%	F	%	F	%
Auditors at work freely work in an objective manner	10	76.9	03	23.1	0	0	0	0	13	100
Auditors are protected by regulations to choose to reveal	08	61.5	04	30.8	01	7.7	0	0	13	100
Proposed audit strategies cannot be inhibited at all	06	46.2	04	30.8	03	23.1	0	0	13	100
Audit results and evidence in AIRSRP is never restricted	05	38.5	05	38.5	02	15.4	01	7.7	13	100
There is mandatory rotation of auditors in AIRSRP	04	30.8	03	23.1	05	38.5	01	7.7	13	100
Auditors are allowed to provide advisory services	08	61.5	03	23.1	01	7.7	0	0	13	100

The question asked was aiming at getting the respondents' ideas on their acceptance level as to whether AIRSRP has efficient and effective financial audit in order to improve the project's performance. Among the factors, the one that was highly strongly agreed was whether auditors at AIRSRP freely carryout their duties objectively at 76.9%. This revealed the freedom of auditors while reviewing the financial audit of the project. In addition to the above, the practices that were asked about were the following; AIRSRP auditors are protected by regulations, there is mandatory rotation of auditors in AIRSRP to improve auditor their performance; in AIRSRP, auditors are allowed to provide advisory services to the staff and management; and to note is that all were strongly agreed and agreed apart from two of which respondents disagreed at 7.7% each.

4.2 Analysis of the performance of Africa Indoor Residual Spraying Rwanda Project:

Table 2: Agreement level of respondents on the AIRSRP performance

Statements	5		4		3		Total	
	F	%	F	%	F	%	F	%
Effective financial audit assisted AIRSRP to increase its growth	10	76.9	02	15.4	01	7.7	13	100
Effective financial audit assists AIRSRP improves its transparency	10	76.9	03	23.1	0	0	13	100
Effective financial audit assist AIRSRP to improve its proper records	11	84.6	02	15.4	0	0	13	100
Effective financial audit assisted AIRSRP to increase its compliance with rules and regulations	11	84.6	02	15.4	0	0	13	100
Effective financial audit assisted AIRSRP to increase its proper utilization of funds	11	84.6	01	7.7	01	7.7	13	100

Regarding table2, the researcher was pressing hard to get equipped with the knowledge concerning the contributions financial audit has towards the performance of the Non-Governmental organization in particular AIRSRP project. In brief, the table indicates the importance of having had effective financial audit by the project and they include the following; effective financial audit assisted AIRSRP to increase its growth, effective financial audit assists AIRSRP improves its transparency, effective financial audit assist AIRSRP to improve its proper records, effective financial audit assisted AIRSRP to increase its compliance with rules and regulations and that effective financial audit assisted AIRSRP to increase its proper utilization of funds. It was understood that financial audit has done much towards the performance of the project since 84.6% of the respondents strongly agreed on different statements.

4.3 Relationship identification between the financial audit and the performance of AIRSRP:

Table 3: Acceptance level of respondents on relationship between performance and audit

Statements	5		4		3		2		Total	
	F	%	F	%	F	%	F	%	F	%
Auditors have the required internationally accepted audit competences	07	53.8	06	46.2	0	0	0	0	13	100
AIRSRP has qualified staff in auditing practice	11	84.6	01	7.7	01	7.7	0	0	13	100
External auditors are also hired to evaluate effectiveness	08	61.5	02	15.4	02	15.4	01	7.7	13	100
Auditors have a passion for discovery and education	09	69.2	04	30.8	0	0	0	0	13	100
AIRSRP auditors have perfect written and verbal communications	09	69.2	04	30.8	0	0	0	0	13	100
Integrity is a critical indicator of AIRSRP auditors for their reputation as professionals.	09	69.2	03	23.1	01	7.7	0	0	13	100

As revealed in table3, the researcher targeted the respondents so as to get information about the factors for financial audit relation to the performance whereby these issues were stated for the respondents to strongly agree, agree, disagree or strongly disagree with. The highly agreed factor was that AIRSRP has qualified staff in auditing practice which was strongly agreed by 84.6%. In addition, it was clearly witnessed that External auditors are also hired to evaluate effectiveness, auditors have a passion for discovery and education, AIRSRP auditors have perfect written and verbal communications, and integrity is a critical indicator of AIRSRP auditors for their reputation as professionals. According to the findings, the issue of having external auditors to be hired to evaluate efficiency and effectiveness was disagreed at a percentage of 7.7% while 15.4% was undecided and this evidenced that the project has not streamlined this practice. In an interview with the head of internal audit, he revealed that a few times they have had external auditors. That they are hired once annually.

4.4 Regression Analysis:

With the help of SPSS, this sub section expresses the significant relationship between the research variables which include financial audit and performance of Africa Indoor Residual Spraying Rwanda Project. This subsection helped the researcher to understand the relationship that lies between an independent variable and independent variable of this study.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.816 ^a	.788	.6809	.13154

a. Predictors: (Constant), Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.788, an indication that there was variation of 78.8% on performance of AIRSRP due to changes in Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls. The results indicated in the table show that 78.8% changes in performance of AIRSRP could be accounted on by Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls. Hence, a strong positive relationship between the study variables marked by R=0.816 is shown in the table.

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.991	5	.248	7.132	.012 ^a
	Residual	.369	18	.023		
	Total	1.360	23			

a. Dependent Variable: Performance

b. Predictors: (Constant), Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls

From table 5, ANOVA test shows a p-value of 0.012 less than alpha (5%), the significance level. This means the given data fit well with the multiple regression models. Decision may be based on the comparison of F-calculated (Fisher value) and F-tabulated. In the findings reached, the calculated value was greater than the critical value (7.132 > 2.77) an indication that Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls have an impact on performance of AIRSRP. Hence, the significance value was less than 0.05, an indication that the model was statistically significant.

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.252	.863		.292	.774
	Financial Audit Standards	.366	.132	.451	2.768	.014
	Independence of Financial Audit	.812	.288	.461	2.821	.012
	Professional competency	.389	.255	.212	1.527	.146
	Internal Controls	.537	.312	.203	1.345	.142
a. Dependent Variable: Performance						

From the data in table7, the established regression equation was:

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

$Y = 0.252 + 0.366$ (Financial Audit Standards) $+ 0.812$ (Independence of Financial Audit) $+ 0.389$ (Professional competency) $+ 0.537$ (Internal Controls). From the above regression equation it was revealed that holding Financial Audit Standards, Independence of Financial Audit, Professional competency and Internal Controls to a constant zero, performance of AIRSRP would be 0.252. Indeed, this constant called y-intercept is not realistic but it is a needed parameter in the model. Also, a unit increase in Financial Audit Standards would lead to increase in performance of AIRSRP by a factor of 0.366, a unit increase in Independence of Financial Audit would lead to increase in performance of AIRSRP by a factor of 0.812; a unit increase in Professional competency would lead to increase in performance of AIRSRP by a factor of 0.389; and a unit of Internal Controls would lead to increase in performance of AIRSRP by a factor of 0.537.

5. CONCLUSIONS

- i. The study concluded that indicators of the financial audit which include standards, independence of financial audit, professional competency and internal controls were studied fully and the findings indicated that AIRSRP has all of them and they are effective.
- ii. The study concluded citing the better performance at AIRSRP which is majorly geared by competent staff in the audit, experience of the staff and management, independence and freedom of the auditors.
- iii. Finally, strong relationship between the study's variables was revealed after the regression analysis. As it is revealed by the findings, the ANOVA test shows a p-value of 0.012 which is less than alpha of 0.05 (5%) which explains that the study's independent variable and dependent variable are associated. Also, through regression analysis there was an indication that there was variation of 78.8% on performance of AIRSRP due to changes in financial audit standards, independence of financial audit, professional competency and internal controls. Hence, a strong positive relationship between the study variables was revealed.

6. RECOMMENDATIONS

- i. There is need for the internal auditors to continuously update themselves with the changing times and technologies and sharpen their skills. By applying skills to the most critical points, building personal and professional credibility and recognizing and responding to the needs, internal auditors can become indispensable thus speeding good governance and enhancing efficiency of internal audit.
- ii. The management of the project should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

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