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Government Audit: A Review of Employees' Attitudes on Government  
Audit of Public Sector Enterprises in Sri Lanka

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# **Government Audit: A Review of Employees' Attitudes on Government Audit of Public Sector Enterprises in Sri Lanka**

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## **Abstract**

Entire investment and annual maintenance costs of public sector enterprises are financed by the public treasure. Thus, the public has paramount right to know the actual performance of such organizations. On behalf of the public, the Department of Auditor Generals' of Sri Lanka has been performed as an independent auditor of the public enterprises over 200 years.

Media has frequently reported that government audit officers who perform their duties with common objectives to protect the public interest and right have harassed, insulted and life threats since some public sector officers oppose to the government audit. Therefore, this study has designed to assess attitudes of the public sector employees' on government audit. Data was collected through survey and interviews. Sample for survey consists of randomly selected fifty employees covering audited seven public sector organisations. Additionally, two employees and one executive officer of each organisation, which are included in the survey sample, were interviewed. The study found that, officers who have personal objectives (self motives) dislike to government audit where as officers who have social objectives (public motives) have understood that government audit as a compulsory activity to protect the public interest and public sector enterprises. However, majority of the public sector employees have negative attitudes about the quality of the government audit.

## **Introduction**

Total Investment and annual recurrent expenses of all public enterprises and public projects of Sri Lanka have financed by public treasure. Thus, the government has imposed rules, regulations and guidelines in order to monitor and perform activities of public enterprises with effective and efficient manner. For example, Financial Regulations (FR), Establishment Code (EC) and the Financial Act No. 38 of 1971etc. Although numbers of rules, regulations and guidelines exist to control activities of such enterprises, media has regularly reported that bribery and corruption of public sector enterprises have steadily been increased day by day. For example, Muragala (2002a), Lankadeepa (2000b), Dinamina (2003), Silumina (2003). Public as stakeholders of public enterprises, they have paramount right to know and inquiry about financial and operational performance the public sector enterprises. Although the public has right to know, they can not practically participate to the controlling process. Therefore, on behalf of the public, the Department of Auditor Generals' of Sri Lanka takes actions and make proposals to mitigate or prevent corruption, briberies and malfunctions of government organisations in order to protect the public interest. Thus, the Department of Auditor Generals' acts as trustee of the public interest of all government / public organisations (Muragala 2002a). Although the Department of Auditor Generals' discharges its duties, some public sector officers have negative attitudes about government audit because of they have claimed that audit functions have limited only to detect corruptions, frauds and malfunctions and moreover they believe that government auditors do not have adequate experience and competence to carry out an useful audit. Also, some government officers say that audit approaches of government auditors do not suite (sometimes, but not always) to the audited organisation (s) concern and they follow outdated audit approaches. As a result, audit report may not be a correct transparency of such organisation/(s). Thus,

it is the main reason for growing negative attitudes among public sector officers about government audit. On the other hand, officers those who has sound knowledge of financial regulations and work honestly, believe that audit report as a barrier to their work since some audit reports have criticised their work seriously without genuine reasons.

But, the Department of auditor generals' has recognised that the government audit as a social requirement and their responsibility to the society. However, ultimate result is that most of the government officers have bad impression about audit officers and they have harassed in several times while they were engaged in audit activities. For example, acid attack to audit officers by officers of education office of Kandy (Muragala, 2002b).

Therefore the main objective of this study is to examine an attitude of public sector audited enterprises employees of about government audit. Additionally,

1. examine the reasons for negative attitudes of government Audit.
2. make suggestions to improve quality of the government audit while eliminating negative attitudes of employees.

## **2. Literature Review**

### **2.1 Stewardship, Agency and Auditing**

Early stage of business sector, there was no distinct between owner and manager of a business. Owner manages his business. Latter on with an expansion of business sector, business units with various types of ownership were come in to existence. For example, partnership, companies and public enterprises. Since there were many owners in the same business units, particularly in company form of business units and there investment and daily business transactions are relatively high and complex

owners appoint another person call manager or agent to look after their business activities and he was assigned decision making authority on behalf of owners (Jensen & Meckling, 1976; Mathews & Perera,1991). Since agent manages principal's (others) assets, there was a necessity to produce periodical reports (accountability) stating utilisation of their assets. As a result of the agent, principal relationship and assets manage by other party there was an additional requirement call audit was arise to attestation of independent third party person call auditor to make sure that agent has utilise principal's assets in order to increase principal's wealth. In this way audit was introduced to the business sector (Millichamp, 1996).

The public rely on the audit report (Poter, 1983). Thus, an auditor has responsibility towards the whole society. In respect of government audit, social responsibility of auditors is more important since public sector/ government organisations totally depend on social / public assets and those assets are managed by an appointed person (s). The government audit has responsibility to provide information of public enterprises to the general public as stakeholders of the public enterprises (Muragala, 2002b). Therefor, the Department of Auditor General's accomplish the role of agent of the general public looking after an effectiveness of the utilisation of public assists for betterment of the society.

## **2.2 Government Audit in Sri Lanka.**

Government audit in Sri Lanka has a long history. Historical evidence says that, cash transactions even during the tenth century, when tenth Mahinda was the King of Sri Lanka was accounted and audited (Samarasinghe et.al., 1992). However, The Department of Auditor General's of Sri Lanka was started from 1799, ie. 204 years ago (News Editor, Department of Auditor General's of Sri Lanka, 1998). It is obvious

that the important of the role of Government Audit. It is an independent Department, which is directly responsible to the society through the Parliament.

Approaches without disturbance or interference of owners or third party to all necessary information is the most important for successful independent audit (Millichamp, 1996). Thus, the Auditor General has empowered by the constitution of the Democratic, Socialist Republic of Sri Lanka providing all facilities and authorities to carry out an independent audit of public sector organisations. According to the provisions made in the constitution of 1978, annual accounts of all Government Departments, Ministries, Corporations, Local Governments Authorities, Provincial Councils, other business and non- business organisations which take over to the government under any Act or other ways and foreign aid projects should be audited by the Auditor General.

Table 01 shows public organisations which were audited by the Department of Auditor General. All these organisations should produce their annual financial statements to the parliament together with the audit report with in the ten months commencing from the last date of previous financial year.

**Table 01 Government Audited Public Enterprises / Institutes/ Organisations/  
Project : 1999- 2001**

Organisation	Financial Year		
	1999	2000	2001
Cabinet Ministries	32	25	43
Government Departments	129	123	122
Government Enterprises	226	191	277
Foreign Aid Projects	113	99	90
Statutory Funds	49	56	78
Provincial Councils	08	04	03
Municipal Councils	14	16	13
Town Councils	37	38	30
Pradeseeya Sabha	261	201	257
Agriculture Service Centres	550	203	585
Diplomatic Services	58	20	26

Source: The Department of Auditor General's

## 2.3 Legal Background of government Audit

### 2.3.1 Provisions of the Constitution of 1978

(a). Legality: According to the Section 154 of the XVII constitution of the Democratic, Socialist Republic of Sri Lanka Auditor general has authority to audit annual accounts of all public sector enterprises in Sri Lanka. Additionally, sections 154 (2), 154 (3), 154-(4)(a) and 154 (4)(b) also emphasize the necessity of government audit.

(b). Authority: Section 154(5) (a) of the XVII constitution of the Democratic, Socialist Republic of Sri Lanka has assigned authority to Auditor General to conduct a statutory audit of public sector enterprises. According to this section auditor general or his official agent has empowered as follows.

1. to check all accounting records and other all documents which are necessary for audit.

2. entering to the all stores and other properties of the audited organisation.
3. interview any employee (s) to get more clarification related to the current audit.

Moreover, sections 154(5) (b), 154(6) and 154(7) of the XVII constitution of the Democratic, Socialist Republic of Sri Lanka have also conformed the Auditor General's authority to conduct a statutory audit of public sector enterprises.

### 2.3.2. Financial Act of No.38 of 1971

In addition to the provision made in the constitution of the Democratic, Socialist Republic of Sri Lanka for statutory audit, sections 8(1), 10, 11, 12, 13, 13(3) and, 13(3a)- 13(f) of part ii provide guidelines for statutory audit of public sector enterprises.

### 2.3.3 Objectives of the Government Audit

Primary objective of the private commercial audit is that, express independent opinion on accounting records whether those show true and fair view of business operations and has disclosed all of them to stakeholders (Millichamp, 1996).

But, scope of the government audit is vast than that of private commercial audit since the parliament and the public need to know an utilisation of public funds by the management of public enterprises. Thus, in addition to the traditional audit it is need to conducted a value for money audit, compare the achievement with operating expenses incurred during the year and provide comprehensive report to the parliament committee on public enterprises (News editor, 1998). Currently, the department of auditor generals follows



international auditing practices and procedures and environmental audit to achieve these objectives.

#### **2.3.4 Behaviour of Public Sector Officers**

Public sector officers reactions to the government audit report depend on their pattern of general attitudes and behaviour. Thus, it is necessary to study the behaviour patterns of them. According to Hogwood and Gunne (1984) personal objectives are the prominent factor for their behaviour. Public sector officers can broadly be divided in to two categories.

1. who has personal objectives (selfish motives)
2. who has have social objectives (public motives)

The first group more concern on their personal objectives rather than social objectives. They can be further divided in to two groups.

They are; (a). 'Climbers- these officers attempt to maintain their power and other benefits and maximise income through designation.  
(b). Conservers – They make decision on the basis of existing rule and regulation as they more concern on job security.

The second group concern on personal, organisational and social objectives. Moreover they can be categorised in to three border groups. They are,

- (a). Zealets- they are more concern on personal objectives and organisational objectives
- (b). Advocates- they are more concern on and organisational objectives
- (c). Statements - they are more concern on social objectives and sustainability of the society.

Government officers come under Climbers category has negative attitude for auditing since they thought it might be a threat them. Thus they do not give their support to audit process. But, an officer who has social objectives has positive attitudes about government audit since they thought it as a important and compulsory activity of the any government organisation. Thus, give adequate support to auditors and they willing implement auditors recommendations.

### **3. Methodology**

Data collection only through questionnaire is not enough to collect correct data (Hussey & Hussey, 1997). Thus, to eliminate such type of weakness a mix methodology such as questionnaire and interview method was applied in this study. Questionnaire was distributed among 50 employees who randomly selected from audited seven public sector organisations. Only 32 employees were responded. Two were rejected. Objectives of questionnaire was to know attitudes of employees about auditing, auditor's role, audit approaches, auditing procedures and impact on employees etc. Questionnaire was divided into five sections such as personal profile of interviewees, necessity and effectiveness of government audit, quality of government audit, adequacy of government audit, and corporation between auditor and the management of the audited organisation. Further, two open ended questions were used to get more information of the followings. There are;

- (a). employees attitudes about the existing audit procedures
- (b). Suggestions to improve effectiveness of existing audit procedures

In addition to the questionnaire officers and employees of the audited government enterprises included in the sample were interviewed to know their experience about government audit and summary of that findings show in the table 02.

## Table 02; Findings of interviews

1. Audit approaches are not pleasant. They just like police.
2. They do not show correct way. Try to find fraud.
3. It is useless to start audit after the financial year.
4. Audit procedures are out dated
5. Auditors check only travelling claims
6. Audit is a good : action should take immediately
7. Audit is a useless effort. Because of mistake or frauds of minor staff are tried to find. No one talk about the same done by the big people.
8. Audit report does not provide guidelines for future.
9. Audit is a good effort if it free from politics
10. As a result of the government audit frauds of malfunctioning of public properties can be minimised
11. Today, there is no independent audit. It is bias

### **3.1 The Sample**

3.1 Sample consists 60% male and 40% female and they were 20-60 years age rang. From the sample 33% cabinet ministries, 40% government departments and the rest are government corporations. Survey group consists 33% executive, 40% staff assistants and the other are clerical grade employees. They are having up to 35-year service as a period in the area of auditing.

## **4. Employees Attitudes**

Data collected using the methodology explain in this study was identified under four categories. They are;

1. necessity and effectiveness of the government audit
2. quality of the government audit
3. adequacy of the government audit
4. auditors relationship with management

#### 4.1 Necessity and effectiveness of the government audit

According to the stewardship and agency-ship, it is a duty of the agent to use owners' resources in order to meet their expectation (Mathews & Perera, 1991). Thus there is a close relationship with managers and owners. But such type of relationship does not exist in the government sector. Thus, officers who have personal objectives (climbers) attempt to maximise their personal objectives through the use of public properties. As a result, frauds and misuse of public properties of government organisation has been increasing rapidly. For examples, Dinamina (2003); Muragala (2002); Lankadeepa (2000). Additionally, annual audit report of the department of forest conservation (2001); the department of railway (1998); Sri Lanka Navy (1998).

All respondents to the questionnaires and interviews have mentioned that government audit is vary essential activity of the public sector organisations. It implies that all of them have aware of the misuse of public properties of these organisations. Additionally, all of them have mentioned, many cases relating to the misuse of money and other assets can be found. Although, audit reports frequently reported such type of cases there is no decreasing trend of those cases. According to employees' it takes more time to find those cases and political interference are main reasons for this situation. Further more they (about 80%) said that since most of the employee, fear to audit report, it may help to some extend to protect public properties of these organisations. Moreover, 80% of the respondents said that, sine audit officers discuss

with managers they may recommend acceptable guidelines and other auditing procedures. 40% of the respondents believe that there is a positive relationship of cost –benefits of government auditing.

They have suggested followings to improve effectiveness of the government audit.

- Consultancy is more important than detecting of fraud
- Audit procedures should be updated
- Continuous audit through out the year may be more important
- Audit officers should be trained
- Audit should start with in the current financial year
- Attitudes of auditors should be changed
- Timeliness audit should be introduced
- Take necessary disciplinary actions against the fraud

## **4.2 Quality of the government audit**

General public, as a third party, heavily rely on an independent report of the department of auditor generals about utilisation of public properties by them. Thus, audit report should be a quality, reliable and timeliness report. In this study quality of the audit report has discuss under three headings such as skills and competent of audit officers, audit approaches and timeliness of audit report.

Auditor should have adequate knowledge and training (Millichamp, 1996). However, study found that, employees of the government audited public organisations have negative attitude about knowledge and training of audit officers. About 405 of the respondents say that, government audit officers do not have adequate knowledge and training to conduct an effective audit where as other 20% respondents say that, they do not have idea about auditors knowledge and training. According to the information

available at the audit officers union, 87% of the audit officers are either graduates or have completed Higher National Diploma (HND) of Sri Lanka technical or Licentiate examination of the Institute of Chartered Accountants of Sri Lanka. As a results of the higher labour turn over of the audit officers remain staff of the audit department has less experience. Thus, they are not competent to detect well plan frauds and misused of public properties of the government organisations. It may adversely affect to the quality of the audit report. Further more audit officers said that, a training programme for audit officers was started in 1997-1998 with an assistance of Asian Development Bank was not success.

Performance appraisal criteria depend on the nature of the particular organisation. Thus, auditor should have good awareness about the actives of the organisation before starting audit activities. But it can not be seen that, government auditors start audit with pre study of the particular organisation. It may adversely affect to the quality of the audit report and on the other hand their report may not be seriously taken in to consideration. See for example, Dinamina, (2003).

Application of outdated financial regulation in the audit process also adversely affect to the quality of the audit report. For example, one of the Public Health Officer (PHI) has travel from Colombo to Ragama by his own vehicle to check public lavatory and he has claim transport, expenses accordingly. But, according to the Financial Regulations any public officer can not claim for private vehicle unless there is no public transport and prior approvals. Once, that PHI got an audit query for this matter his answer was “trains do not stop at ever lavatory”. This type of audit query may adversely affect to the quality of the audit report and to get law responses to even genuine audit queries. On the other hand such type of audit query represent the general knowledge of auditors. Study fund that, successful responses have got only

about 20% of the audit queries. It implies that, government officer do not interesting to answer to those questions since they think some of them are useless queries.

About 60% of the respondents state that, government audit is not a timeliness audit. Audit report issued after 10-12 months of the financial year. Some times responsible offers for the concern case may not be in that office. Thus, 80% of the respondents say that interim audit report with continuous audit is useful to maintain timeliness of the audit and to find fraud and misuse of public funds and quality of the audit report may be increased. Attitudes of the employees about the quality of audit can be summarised as follows.

- it is an out dated audit
- auditors do not have adequate knowledge and experience
- financial regulation should be updated
- scope of audit should be expand

### **4.3 Adequacy of the government audit**

Audit evidence is the basis of audit report ((Millichamp, 1996). Therefor under any type of audit i.e. statutory, private, continuous, balance sheet, management audit etc. auditor should study evidential documents adequately. But 70% of respondents say that, there is no such deep practice in government audit. Interviewed respondents say that, if the audit is continuous audit, all most all evidence is collected where as an audit is a spot audit all evidence may not be reviewed. The statement “ audit is a checking of travelling expenses” implied that incompleteness of audit. Respondents believe of unsuitable audit approaches and lack of knowledge, skills and competent as reasons for inadequacy of the audit. But, employees who have good interest to public properties say that since external politic interfere to government audit it can not be

expect quality and independent audit. Because, audit officers have life threat if they done their duty properly. For example, acid attack to audit officer by heads the education authority (Muragala,2002).although, auditors have enough knowledge, and evidence they may not report properly since they have threats. Thus employees who has have social objectives (public motives) have mentioned that;

- external politic interference should remove from audit
- personal bias should remove from audit
- independent audit should be implemented

#### **4.4 Auditors relation ship with management**

Except an internal audit, in all other circumstances if auditor is an independent person ,it is important to get unbiased audit report ( Attwood & Stain, 1996). However, healthy relationship between auditor and the management is also very important for effective audit. Therefore it is very basic responsibility of the audit officers to maintain good relationship with there employees to create friendly working environment. About 83% of respondent say that auditors work with them friendly and they also provide necessary facilities and support in official level. Some respondents say that, they have fear to audit officers because of they just like police officers and since this fear they support to audit officers. Audit officers say that, they do not start audit with any personal matters. Their responsibility is to give attestation to general public about the performance of public enterprises. Therefore, any public officer does not worry or fear about government audit.

About 60% of respondents say that, although there is some weakness of the method use by auditors to collect audit evidence, in general those are satisfied. About 805 of the respondent say that, weakness of existing procedures usually explain by auditors



and they propose possible solution to illiminate such weakness. Although, in general there is a good relationship with employees since government officers who has personal objectives think audit as burden to them they oppose to audit and they harass to audit officers. Under such circumstances, audit officers face to inconvenient situations (Muragala, 2002).

## **5. Summary and conclusion**

Media has frequently reported that there is a growing trend of fraud, misused of public properties and so many malfunctions in the public enterprises in Sri Lanka. As a result there is a decreasing trend of efficiency of these organisations. Since public enterprise have financed and maintained by public funds the general public has right to know information of the performance of these organisations. Thus, section 154 of the seventh constitution of the Democratic, Socialist Republic of Sri Lanka has empowered the Department of Auditor Generals as independent department to perform audit activities of all public enterprises in Sri Lanka.

Study found that, employees of the public enterprises believe that government audit is an essential activity since it may help to control and minimise frauds, misuse of public properties and since it provide guidelines and instruction to management. However, they do not happy about quality of audit report and existing audit approaches since, lack of professional knowledge, skills and competent, application of out dated auit framework, absence of timeliness of audit report. Therefore, they were not happy about government audit.

Employees those who have interesting of public investment believe that government audit as one of the effective ways of protection of public interest. But employees who have personal agenda oppose to audit activities and they believe that it is an

unnecessary and useless effort and audit officers have harassed many times by them. Many employees have understood that government audit as a way to find frauds and misuse of public properties of public enterprises. Therefore, they have fear to government audit.

Currently, external politic has largely involved with government audit. Thus, value of audit report has becoming decrease since there is no expected independence. Thus, in generally, there is a negative attitude about government audit among employees of the public sector enterprises.

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