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The impact of external audit on the accountability of the common fund of the Mozambique National Institute of Statistics

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Abstract

Purpose – The purpose of this paper is to evaluate the impact of external audit on the management of the Common Fund of the Mozambique National Institute of Statistics (INE).

Design/methodology/approach – This paper followed a case study approach of the INE Common Fund that was based on the qualitative evidence from the content analysis of the external audit reports, annual plans of activities and budget for the past seven years and interviews with middle managers of the INE.

Findings – The research found that external audit has a relatively significant impact on the management of the INE Common Fund. The authors attribute the positive impact to the high concern of management to implement the external audit recommendations, associated with the financial dependence between the agent (the National Institute of Statistics) and the principal (Fund Donors), explained through Laughlin's Model of Accountability.

Practical implications – The results indicate that external audit associated with the financial dependence of the agent on the principal has a significant impact on the accountability. Thus, it contributes to assist in the formulation of public policies on external financing to developing countries.

Originality/value – Most of the studies on external audit and accountability are from countries with more developed economies than Mozambique's, without heavy reliance on external financing, and these studies analyse the audits carried out by public audit institutions. This research explores the phenomenon in the context of external financing to the State Budget by governments and international organisations.

Keywords Accountability, Common fund, External audit, Public funds

Paper type Research paper

1. Introduction

Despite recording high levels of economic growth, Mozambique continues to be heavily dependent on the foreign aid for the State Budget financing (Castel-Branco, 2011). One of the main financing mechanisms for the State Budget is the Common Fund, which refers to the common mechanism that gathers the financial contributions from foreign aid. The INE activities are funded about 50 per cent by external organisations and governments through the Common Fund. In the past years, there has been a growing importance of external audit of public finances in developing countries such as Mozambique to ensure transparency and accountability of foreign-aid funds. External audit is described as a mechanism that provides reliability of accounts both in public and private organisations and that serves as assurance for the interested parties regarding the correct information about efficacy and



efficiency in the management of organisational resources (Mzenzi and Gaspar, 2015; Ng, 2002). The Memorandum of Understanding (MOU) between the INE and the Cooperating Partners (2013) establish a mandatory annual external audit of all funds received under the Common Fund to be undertaken by a firm of auditors, selected according to the public procurement rules of the country.

Therefore, the main objective of this paper is to evaluate the impact of external audit on the management of the INE Common Fund. The study was motivated by the lack of surveys on the impact of external audit on the management of public funds, especially in developing countries that are heavily dependent on the international financial aid to finance their budgets. In Mozambique, for example, we could not find a similar study or survey on this topic. In many countries (Tanzania: Tulli, 2014; Mzenzi and Gaspar, 2015; Nigeria: Salawu and Agbeja, 2007; Estonia: Raudla *et al.*, 2016; China: Gong, 2009) studies on the impact of external audit on the management of public funds/accountability have been conducted. However, in other countries, with more developed economies than Mozambique's and without heavy reliance on external financing, such studies have been focusing on the audits carried out by public audit institutions. Thus, the main research question was formulated as follows:

RQ1. What is the impact of external audit on the accountability of the INE Common Fund?

This article is divided into seven parts: introduction, prior studies, Laughlin's Model of Accountability, the study context, research method, presentation and discussion of results and conclusions. First, in the introduction, we present the context of our research, motivation and objective. In the prior studies, we provide a discussion on the accountability and auditing in public sector organisations and then the Laughlin's (1990) Model of Accountability. Next, we explain the methodology used in our research. Finally, we present the discussion of the results and conclusions of the investigation.

2. Prior studies

Accountability is a term that emerged in modern democratic society. However, the traditional concept of accountability is given by Roberts and Scapens (1985, p. 447) is understood as "the giving and demanding of reasons for conduct". According to Newell (2006) and Grant and MacArthur (2008), during the 1990s, the accountability term became more prominent in the field of discussions on development and has been widely used by donors and in academic discourses. Accountability became a malleable and often cloudy concept, with connotations that change in accordance with the context and interests. According to Pickett and Pickett (2005), accountability is important for any organisation because every organisation needs to explain how it ensures high standards of performance, integrity and accountability. In the context of the countries, Grant and MacArthur (2008) go further to consider that poverty persists largely because poor people are powerless and unable to hold the governing authorities accountable. Being accountability a political economy problem, the countries and international institutions that finance developing countries should take it seriously, in the sense that the aid must strengthen the State's responsibilities towards society.

Bovens (2010) addresses accountability in two distinct concepts: in the first, accountability is considered as a normative concept for evaluating public agent's behaviour, and in the second, it should be considered as a mechanism by which public officials are held accountable. Despite making this distinction, the author recognises that, whatever the approach used, there are always several common elements in the accountability concept

connected with transparency, openness and responsiveness. For [Lindberg \(2009\)](#), the way to save the utility of the concept accountability is to follow the classic approach for forming concepts taking into account five key characteristics:

- (1) an agent or institution receiving the funds (agent);
- (2) an area of responsibility or area subject to accountability;
- (3) an agent or institution to whom the accounts are rendered (principal);
- (4) the right for the principal to demand explanation and information from the agent; and
- (5) the right for the principal to sanction the agent for non-compliance.

This is the application of the agency theory to the relationship between public institutions (agents) and the public (principal).

In the public sector, [Lodhia and Burritt \(2004\)](#) maintain that accountability is a vital aspect of governance which allows ordinary citizens in the civil society to be informed about the performance of the institutions controlled by the government on behalf of the people. Public institutions should be subject to rigorous scrutiny, forcing those responsible for the management to account for the activities entrusted to them. [Grant and MacArthur \(2008\)](#) report that accountability in the use of public funds is one of the pillars for good management of public finances. According to these authors, the audit in the public sector should promote a good and effective use of public funds, the development of a strong financial management, the proper execution of administrative activities and communication of information to public authorities and to the general public through publication of reports.

The public sector represents the principal–agent relationship in which public officials act as the agents of the principal (the public) and should periodically render accounts to the principal on the use and management of resources and explain to what extent the objectives have been achieved ([Goodson et al., 2012](#)). According to [Grant and MacArthur \(2008\)](#), accountability is about the relationship between the agent and the principal, which depends on the understanding of the relationship between the holder of the power and those affected by their actions, i.e. that who delegates (the principal) and the delegate (the agent). For [Almeida \(2014\)](#), accountability, in the narrow sense, is based on the unquestionable right of the principal's authority control over the agent, based on implicit or explicit contracts ([Chowdhury et al., 2005](#)).

Many empirical studies have been carried out to analyse the relationship between external audit and accountability in the public sector ([Roberts and Pollitt, 1994](#); [Mzenzi and Gaspar, 2015](#); [Raudla et al., 2009](#); [Ng, 2002](#); [Chowdhury et al., 2005](#); [Salawu and Agbeja, 2007](#)). Overall, these studies have established the contribution of external audit in strengthening accountability in public sector organisations. [Tulli \(2014\)](#) and [Mzenzi and Gaspar \(2015\)](#) corroborate that external audit contributes to accountability in local government authorities, although [Mzenzi and Gaspar \(2015\)](#) recognise that this is only possible if the degree of implementation of audit recommendations is high. [Roberts and Pollitt \(1994\)](#) and [Raudla et al. \(2016\)](#) suggest that, although there is a correlation between the perceived utility of the audit and the extent of the changes it causes, an audit can be perceived as useful even if it does not lead to specific changes in organisational policies. [Gong's \(2009\)](#) considers auditing to be essential for accountability, but this need alone does not sufficiently generate accountability. The author also concluded that auditing, in fact, is a part of the architecture of accountability, as it contributes to the financial health of a government and to the effective management of public funds, without thereby implying that the audit necessarily generates accountability. In summary, there is evidence of a relationship between audit and accountability with positive effects in public sector organisations.

3. Laughlin's model of accountability (1990)

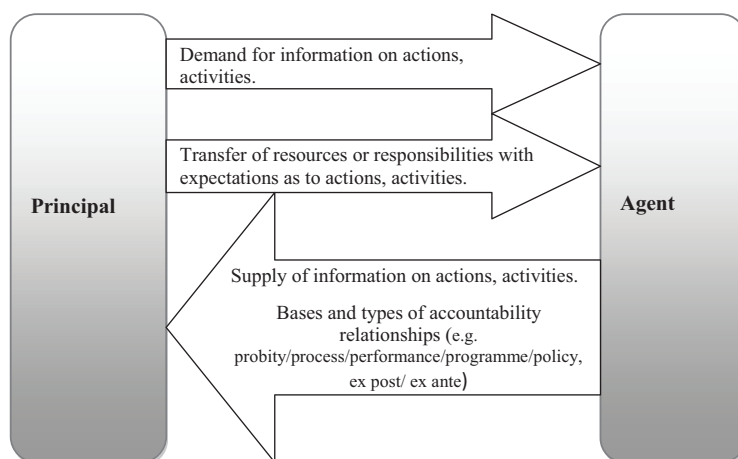
Most studies (Ng, 2002; Mzenzi and Gaspar, 2015; Chowdhury *et al.*, 2005; Salawu and Agbeja, 2007) have used the Stewart's (1984) Ladder of Accountability to describe the relationship between audit and accountability in public sector organisations. Ng (2002) compared Stewart's (1984) five tiers of accountability with categories of performance audit. Mzenzi and Gaspar (2015), on the other hand, analysed their results according to the accountability typologies proposed by Stewart (1984). In this study, just like Woodward *et al.* (2001), we used the Model of Accountability proposed by Laughlin (1990).

Woodward *et al.* (2001), in the study that analyses the attitudes related to social responsibility perceived by the executives of a small sample of large UK companies, suggest that accountability may be based on Laughlin's (1990) principal-agent model, in which contract between the parties is perceived to exist, even if it is an informal and morally defined variety in regard to some of the stakeholders the company interacts with. Almeida (2014) considers that Laughlin's Model of Accountability comprises a structure of interactive relationships developed in terms of cause and effect based on the transparency of resources that confers to the principal the rights, expectations and grounds to question the agent's responsibility. Therefore, the model provides adequate explanations of how accountability works within public sector entities of the countries with strong dependence on budget financing.

Laughlin (1990) studied the existing responsibility practices in the context of organisations through the case study of church accountability practices in England. Considering accountability in the scope of funding, being it the most important area of organisations, once satisfied, it will have an impact on accountability for other resources. In the context of the church in England, people transfer money to the parishes, which are dependent on the contribution of its congregation members. Therefore, the relationship of responsibility is associated with financial dependence on the agent and principal relationship.

Based on church practices in England, Laughlin (1990) developed the Model of Accountability shown in Figure 1. The principal premise of the model is that transparency in the allocation of resources confers on the principal the right to demand accountability for the actions developed by the agent.

Accountability occurs with the existence of formal or informal contracts between the agent and the principal. Laughlin (1990) maintains that the responsibility of relations requires the transfer of resources and alignment of responsibilities with certain expectations. The same author also advocates that the five accountability levels of Stewart (1984) do not operate all at once for the accountability relationships, and that first three can be seen most often, i.e. integrity and legality adequacy procedure and performance. Thus, there can be two main levels of accountability, the first one refers to the use of accounting to determine the income and the degree of compliance with laws and regulations and the second corresponds to the performance measures required by the principal. Accountability underlies the agency relationships that have high standards of ethical behaviour by the agent towards the principal (Almeida, 2014). Therefore, according to Goodson *et al.* (2012), an effective audit activity reduces the inherent risks in a principal-agent relationship. The principal relies on the auditor to provide an independent and objective evaluation of the agent's accounting accuracy and to report on whether the agent uses the resources according to the principal's wishes. To support the intervention of the auditor Almeida and Silva (2013) extended Laughlin's Model of Accountability adding the auditor's role in removing the doubts about the agent's behaviour.



Source: Laughlin (1990, p. 95)

Impact of
external audit

Figure 1.
Laughlin's model of
accountability

In the application of [Laughlin's \(1990\)](#) Model of Accountability in the context of financing State Budget by Governments and International Organisations, the problem of the relation between the agent and the principal becomes more complex. According to [Castel-Branco \(2011\)](#), the donor (principal) provides the exchange of political reforms resources which are supposed to solve problems faced by the agent and its electorate. The agent receives funding to implement the reforms and provide services to the population.

[Castel-Branco \(2011\)](#) adds that the principal is not connected to the agent's electorate, and the agent is accountable first to the principal and then to its electorate. This situation becomes problematic if the democratic process is weak, as the agent should be accountable first to its electorate and in this context the agent tends to give more importance to accountability or to the principal than to the electorate. Therefore, this process becomes different from those of the companies in which the principal may dismiss the agent in the event of a failure in accountability. The author adds that in the context of external aid, the funder (governments and international agencies) cannot dismiss the recipient government help, although it can affect it or even lose legitimacy. On the other hand, there may be commercial or resource exploitation agreements that discourage the principal from applying sanctions to the agent. Despite this issue, [Laughlin's \(1990\)](#) Model of Accountability, expanded by [Almeida and Silva \(2013\)](#), continues to present attributes suitable for the public sector. The components of the model that are the use of accounting to determine the income, compliance with laws and regulations and performance measures required by the principal are verified in all agency relations. Therefore, this model is the most appropriate to explain our study, as it provides an explanation of accountability that suits the public sector of a country dependent on foreign aid, as is the case of Mozambique. [Figure 2](#) represents the extended Model of Accountability with some adaptations for our study.

4. Context of the study

The INE was created under the [Presidential Decree No. 9/96 of 28 August \(1996\)](#). According to the Article 2 of this decree, the INE is a legal entity of public law, with legal identity,

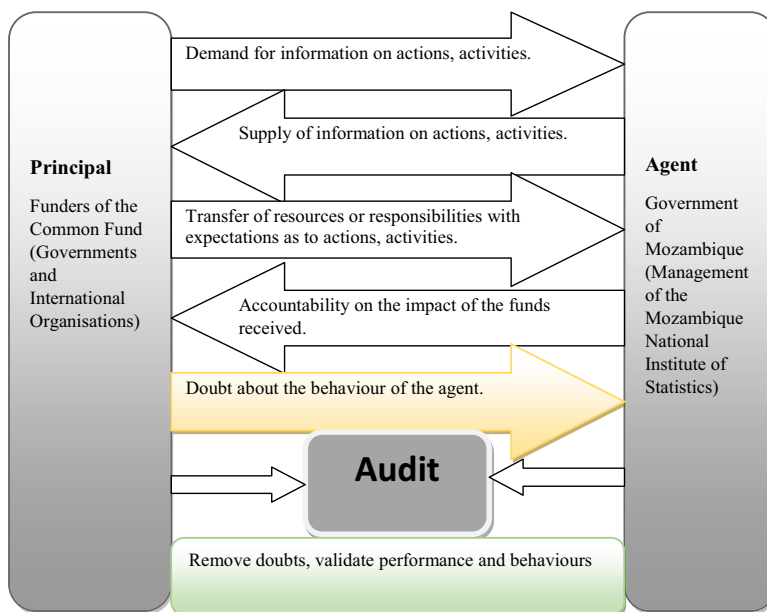


Figure 2.
Extended Laughlin's
model of
accountability

Source: Adapted from Laughlin's Model of Accountability Expanded by Almeida and Silva (2013)

technical, administrative and financial autonomy. The Article 3 (1) of the same Decree establishes that the INE is the central executive body of the National Statistical System under the [Law no. 7/96 of 5 July of the Assembly of Republic of Mozambique \(Law No. 7/96 of 5 July\) \(1998\)](#) establishing the National Statistical System, which is responsible for the production and dissemination of official statistical information of general interest for the country. The INE is structured by the central services, central bodies and provincial delegations.

Because of restrictions of the State Budget for the statistics activities, the INE has foreign aid from the International Governments and Organisations that finance part of the official statistical production activities. Funding is done through the INE Common Fund. The Common Fund is the term used in the restricted sense to refer to the common mechanism for funding the strategic plan of the National Statistical System by Cooperation Partners, who are signatories of the MOU. The term is also used in a broad sense to mean the Common Fund of the Government of Mozambique and Cooperating Partners [[Memorandum of Understanding \(MOU\) between the INE and the Cooperating Partners 2013](#)]. Apart from bringing financial contributions, the Common Fund serves as a common dialogue mechanism to support the implementation of the INE strategic plan.

The strategic plan for 2008-2012 was funded by the United Nations Population Fund (UNFPA) and the Governments of Italy, Denmark, Portugal, Norway and Canada through the Canadian International Development Agency. At present, signatories are UNFPA and the Governments of Canada, Denmark, Norway, Sweden and the UK through the Department for International Development (DFID).

Regarding the Constitution of the Republic of Mozambique, the Administrative Court (TA) is the Supreme Audit Institution for external control of the legality of public revenue and expenditure. According to the Article 228 of the [Constitution of the Republic of Mozambique \(2004\)](#), the Administrative Court is the highest body of the administrative hierarchy, tax and customs courts to review the legality of administrative acts and the application of the rules issued by the Public Administration, as well as to oversee the legality of public expenditures and their fulfilment regarding the responsibility of not committing financial infraction. The Article 230 (2) of the [Constitution of the Republic of Mozambique \(2004\)](#) establishes that it is incumbent upon the TA to issue a report and opinion on the State General Account to prior supervise the legality and budgetary coverage of the acts and contracts subject to its jurisdiction, to monitor successively and concomitantly the public monies and to supervise the application of financial resources from abroad, namely through loans, subsidies, guarantees and donations. The TA is constitutionally independent of the Government and Parliament. The Parliament supervises the public accounts through the approval of the General Account of the State on the advice of the TA.

According to the Article 14 (1) of the [Memorandum of Understanding \(MOU\) between the INE and the Cooperating Partners \(2013\)](#), the INE is subject to audit by the TA in general terms of Mozambican legislation and the appropriate report should be shared with the partners of the Common Fund. Therefore, it recognises the role of the TA as Supreme Audit Institution of public resources control assurance. However, it also recognises the limitations, both human and material of the Administrative Court work in the public sector institutions. Thus, the Article 14 (2) of MOU determines that the Common Fund is subject to an annual audit performed by an external auditor selected under public tender in accordance with *Decree No. 15/2010 of 24 May 2010 of the Council of Ministers of Mozambique*, which approves the Regulation of Public Works Contract and Supply of Goods and Service to the State lasting for two successive years and non-renewable. In fact, during the period under review, the INE was audited by the TA in 2008, and we had no access to the final report during the research because it was not available.

The external audit of the Common Fund should check whether the funds were received and used according to the conditions or whether the goods and services were procured in accordance with the rules laid down in *Decree No. 15/2010 of 24 May of the Council of Ministers of Mozambique (2010)*; check whether the supporting documents and accounting records were properly completed.

Therefore, the audit of the Common Fund consists in the analysis of the internal control system, the financial audit statements and accounting records of expenditure and verification of its legality. The Article 14 (3) of MOU argues that the external audit of the Common Fund should be carried out in accordance with the international standards set by the International Organisation of Supreme Audit Institutions and by the International Federation of Accountants.

5. Research method

Our research follows the case study methodology that according to [Yin \(1994\)](#) is a research method appropriate to analyse a little-explored subject. According to the same author, the case study is an empirical inquiry that investigates a phenomenon in its natural environment when the boundaries between phenomenon and context are not clearly defined. For [Oliveira and Ferreira \(2014\)](#), the case study focuses on a specific situation, contributing to the global understanding of a phenomenon of interest.

[Yin \(1994\)](#) argues that the case study is a rigorous research method and it is an appropriate strategy when we want to know the “how” and “why” of current events over

which the researcher has little or no control. The case studies can be exploratory, descriptive or explanatory. An exploratory study is when you know very little of the reality under study; a descriptive study is when there is a detailed and thorough description of the phenomenon studied in its natural context, and explanatory when trying to determine the cause-and-effect relationship. Vilelas (2009) considers that the case studies pertain to the qualitative approach and are often used for data collection in the area of organisational studies. In turn, for Oliveira and Ferreira (2014, p. 90), the qualitative approach has a constructivist origin, arguing that the phenomena are better understood when framed in the context in which they occur, or otherwise “is a subjective approach that privileges induction, explaining particular phenomena to understand the general”. This approach does not provide a rigid and structured way, which leads to a larger collection of different sources.

According to Yin (1994), the case studies can be single (only one case) or multiple (two or more cases and being then compared). Our study is single and focuses on the INE Common Fund because it is one of the institutions of the Mozambican public sector with heavy reliance on external resources for financing its statistical activities allied with the facility to get all the necessary information for our research.

According to Yin (2003), the collection of data is one of the most crucial phases of the research process, and in the case study, there are several data collection techniques: documentation, interviews, direct observation and questionnaires, among others. For the case study each source may be used alone. However, according to the author, the greatest strength of this research lies on the use of multiple sources of evidence. Our study used the content analysis method which, according to Vilelas (2009), has been one of the most widely used techniques in the interpretation of qualitative research data in the humanities and social sciences. In accounting, the content analysis has been widely used in research studies on social and environmental accounting, intellectual capital and disclosure. In research studies similar to ours on the role of external audit accountability in the public sector, Mzenzi and Gaspar (2015); Tulli (2014) and Gong (2009) used the case study as the main method of research.

To respond to the question of our research, the approach was based on content analysis, using secondary data obtained from external audit reports of the Common Fund which include the report of conclusions and audit recommendations within a period of seven years. This analysis made it possible to explore the impact of external audit on the management of the Common Fund, taking into account the components of accountability and the adequacy of management activities in response to the audit. With regard to accountability, the reports, in terms of approach, provide evidence of useful information to explain the accountability of the Common Fund. To explain the adequacy of the management activities in response to the audit, we analysed detailed Annual Activity and Budget Plans to verify the degree of integration of the external audit recommendations.

The external audit reports, the financial reports and the annual activity and budget plans were provided by the INE during the fieldwork that took place from 18 August to 7 September, 2015. The analysis comprised three phases: pre-analysis, exploration of documents, inference and interpretation of the results. In the pre-analysis, the necessary material was collected for the analysis, the formulation of the objectives and the research questions. In the exploration phase we aggregated the data into units that allowed its analysis. This process led to the emergence of the following topics of analysis:

- trends in the scope of external audit;
- trend of the external auditor’s findings;

- main recommendations of the external audit; and
- the degree of integration of the external audit recommendations into management activities.

Thus, Figure 3 represents the form of analysis followed in the research.

The sample is intentional because, according to Oliveira and Ferreira (2014), in the case study, the choice of sample acquires a very particular meaning and is always intentional, looking for maximum variations to the detriment of uniformity. In this sense, our sample consists of seven annual reports on the external audit of the Common Fund, seven reports on the conclusions and external audit recommendations of the Common Fund for the financial years 2008-2014, financial reports for 2008-2014 and six detailed annual plans of activities and budget for the financial years 2010-2015; during the fieldwork, the plans for the years 2008 and 2009 were not located. The choice of 2008 as the starting year is related to the fact that it is the first year of financing the statistical production activity through the joint mechanism known as the Common Fund, although other funding mechanisms already existed in previous years.

For a better understanding of the evidences found in audit reports and annual activity plans, we used primary data. Thus, we conducted four interviews with some officials of the INE linked to the management of the Common Fund, namely, the Head of the Department of Administration and Finance, the Head of Budget Planning and Execution, Internal Control Officer of the transactions and a Technician of the Patrimony Sector responsible for the processes of acquisition of assets and services. These were the interviewees chosen because they were directly responsible for the services involved in the processes being audited and/or for implementing the audit recommendations. Two of the interviews were conducted by Skype and the other two on the phone and had an average duration of twenty minutes. All interviews were conducted in May 2016 and recorded, transcribed and then analysed. The issues raised focused on accountability under the Common Fund, the impact of the

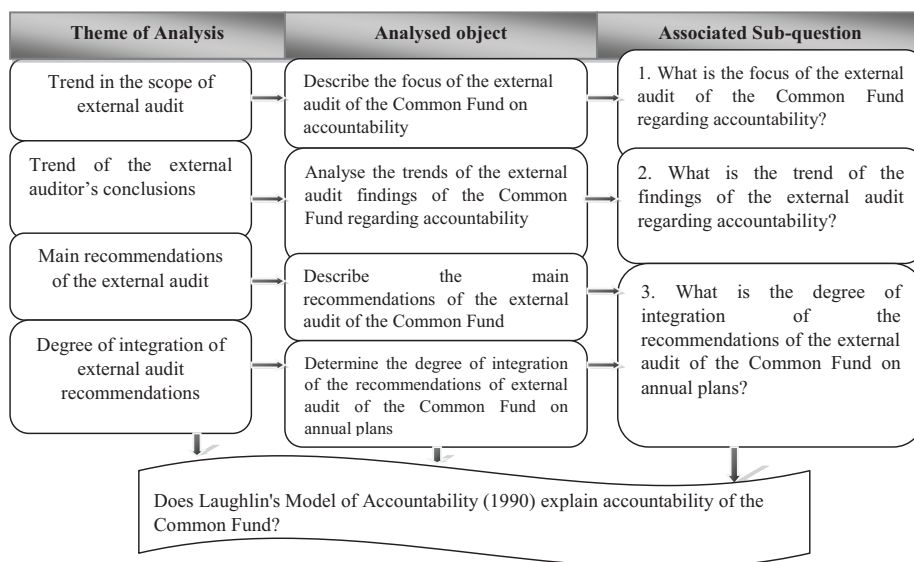


Figure 3. Analysis matrix followed in the research

implementation of the external audit recommendations on the management of the Common Fund, the contribution of the audit to the improvement of management of public funds and the changes perceived in line with the recommendations of the auditor.

6. Presentation and discussion of results

Taking into account the research issues shown in the matrix, we will proceed with the presentation and integrated analysis of the results. The analysis will take into account the focus on the external audit of the Common Fund in relation to accountability, the trend of the external auditor's findings regarding accountability and the degree of integration of audit recommendations into the annual activity and budget. This analysis will be carried out in the light of [Laughlin's \(1990\)](#) Model of Accountability.

6.1 Trend of the external audit scope

The audit scope describes the extension and limits of the auditor's work, which includes planning and performing with the aim of obtaining an acceptable level of assurance and a brief description of the work performed. Its analysis showed the trend for the evolution of the activities and the processes audited. The presentation of the scope was divided into three periods taking into account the auditors who performed the work. [Table I](#) shows the evidence obtained.

Our findings indicate that in the first two years (2008 and 2009) of the Common Fund, the external audit focused on the financial statements, which is noticeable in the work scope performed by the auditor. In general, the external audit of the Common Fund in these two years does not seem to be focused on the two levels of Accountability Model proposed by [Laughlin \(1990\)](#):

- (1) accounting to determine the income and compliance with laws and regulations; and
- (2) performance measures required by the principal.

For 2008 and 2009, the external audit focus goes against the requirements of Lima Declaration of [International Organisation of Supreme Audit Institutions \(INTOSAI\) \(1998\)](#), which provides that one of the main objectives of the audit in the public sector should be the verification of the principle of legality and regularity for detection of deviations from standards. As pointed out by [Ng \(2002\)](#), in the public sector, audit is more than the auditor's opinion on the financial statements because its objectives also include providing assurance on internal controls and compliance with the laws and regulations.

The results show that, from the 2010 financial year, the work scope of the external auditor changed to include the examination of the internal controls design and the examination of compliance of the financial statements with the MOU, agreements, laws and regulations. This situation prevails up to past year of our analysis. Change on the audit scope implies changing the structure of report to be made up of three parts: the report on the examination of the financial statements, the evaluation report on the design of internal controls and the evaluation report on whether the financial statements are in compliance with MOU, agreements, laws and regulations.

Thus, responding to our sub-question no. 1, as from 2010, the scope of the external audit is in line with the results achieved by [Mzenzi and Gaspar \(2015\)](#), in the sense that the external audit mainly focused on legal and financial compliance which responds to the first level of accountability in [Laughlin's \(1990\)](#) Model of Accountability. In addition, the auditor's work became part of the principles of Lima Declaration, in other words, when

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external audit

Period of analysis and auditors	Evidence obtained in audit reports
2008-2009 External Audit of the Common Fund Executed by Ernst & Young, Lda	“Except for the limitation described in paragraph 1 of the reservation below, we conducted our audit in accordance with international standards The procedures depend on the judgment of the auditor, including evaluation of the risks of material misstatement of the Financial Statements, whether due to error or due to fraud ... includes evaluation of the adequacy of accounting policies, as well as evaluation of the overall presentation of the Financial Statements.”
2010-2013 External Audit of the Common Fund Executed by KPMG Auditors and Consultants, SA	“Perform an audit in accordance with International Standards on Auditing to express an opinion on whether the financial statements for the year ended ...” “Evaluate the design of internal controls ... on key transaction flows and confirm that controls were effectively operational during the year.” “Evaluate whether the financial statements of the Common Fund are in conformity with the relevant Memorandum of Understanding, Agreements, Laws and Regulations.”
2014 External Audit of the Common Fund Executed by Baker Tilly Mozambique Auditors and consultants, Lda	“Perform an audit in accordance with International Standards on Auditing to express an opinion on the financial statements for the year ending ...” “Evaluate the design of internal controls of the Common Fund ... and confirm if they were operational during the period under review” “Evaluate whether the financial statements of the Common Fund are in accordance with the terms of the Memorandum of Understanding, agreements and relevant legislation”

Table I.
Scope of the audit in accordance with the audit reports analysed

including the examination of legal compliance, the auditor sought to reveal deviation from the principle of legality.

In regard to the change on the external auditor’s work scope, three of our interviewees were unanimous as explained in the following citation:

The change was due to the demand by the Common Fund partners who, apart from establishing the maximum limit of three years for the renewal of contract with external auditors under the terms of the MOU, require a systematic update of the terms of reference for the contracting of external audit services.

In this context, before tender launching, the terms are discussed in the meetings of the Technical Committee and Partnership Committee. This demand is understood as typical for accountability relationships advocated by [Laughlin \(1990\)](#); [Grant and MacArthur \(2008\)](#) and [Almeida \(2014\)](#), between the agent and the principal, in which the principal holds the right of control and authority over the agent to ensure high standards of responsibility by the agent.

6.2 Trend of external auditor’s findings

Because of changes on the auditor’s report as from 2010 financial year, we will proceed with the presentation of the analysis of the audit findings divided into opinion on the financial

statements, findings covering the whole analysis period and opinion on the evaluation of internal controls and compliance with relevant agreements, laws and regulations covering the period from 2010 to 2014. [Table II](#) shows the audit findings on the examination of financial statements.

In [Table II](#), we can see that, during the period of seven years of analysis, the auditor's opinion on the financial statements of the Common Fund was qualified for three years. We can further verify that the opinion has always been modified based on the same reason, lack of evidence for controlling the management of the funds transferred from the central services to the provincial delegations in the form of an advance of funds. [Table III](#) shows the findings of the auditor's work on the evaluation of internal controls and legal compliance of the financial statements for the 2010-2014 period.

In [Table III](#), we show the findings of the auditor's work in relation to the evaluation of internal controls and legal compliance of financial statements from 2010 to 2014. Regarding the evaluation of internal controls, the auditor's opinion has remained constant since 2010, the year when this analysis began to be part of the auditor's work programme, until 2014, and concluded with tests that, in general, internal controls designed for the Common Fund

Year	Type of opinion	Bases for the qualified opinion
2008	Qualified opinion	Scope limitation related to lack of evidence of controls of advances to provincial delegations that clearly spells out the amounts advanced and justified and the accountability received
2009	Qualified opinion	Limitation of scope due to lack of adequate control of bank balances of provincial delegations that clearly reflects the monthly balances of their respective reconciliations
2010	Unqualified opinion	
2011	Qualified opinion	Scope limitation due to the lack of reconciliations of the bank accounts of the provincial delegations and the lack of response to the circularization of the banks, which led to the non-confirmation of the existing balances as of 12/31/11
2012	Unqualified opinion	
2013	Unqualified opinion	
2014	Unqualified opinion	

Table II.
Auditor's opinion on the financial statements

Year	Report	Opinion
2010-2014	Report on the evaluation of the internal controls of the Common Fund	Except for the matters reported in the letter of recommendations, the auditor considers that there are adequate internal controls on the transaction flows, being functional in all periods of analysis
2010-2012	Report on compliance with the terms of the Memorandum of Understanding, Agreements, Laws and Regulations	The auditor considers that there are some noncompliance situations but includes them in the audit recommendations because they have no effect on the Common Fund financial statements
2013-2014	Report on compliance with the terms of the Memorandum of Understanding, agreements, laws and regulations	The auditor considers that there are no default situations that was aware during work

Table III.
The auditor's opinion on the assessment of internal controls and legal compliance

are appropriate and functional. However, some situations that were not materially relevant have been identified and have been included in the audit findings and recommendations as they do not jeopardize the design of internal controls.

When examining whether the financial statements are in compliance with the relevant terms of the agreements, laws and regulations, the auditor's opinion in the first three years (2010, 2011 and 2012) is that throughout his work he has encountered situations that revealed non-compliance. However, these are situations that had no impact on the financial statements of the Common Fund and were included in the audit findings and recommendations report. In the two subsequent years (2013 and 2014) the auditor did not find any situation indicating non-compliance with relevant laws and regulations.

In terms of the trend in the findings of the external audit of the Common Fund (sub-question 2), if we use the nature of the external auditor's conclusions as an indication of an increase in the level of accountability, our analysis shows that there has been improvement, as it can be seen in [Tables II and III](#), in the opinion of the external auditor in the evaluation of the financial statements and the evaluation of internal controls and legal compliance, respectively. [Ng \(2002\)](#); [Mzenzi and Gaspar \(2015\)](#) came to the same conclusion.

Likewise, in the opinion of some of our interviewees:

There were problems with the accountability of the funds transferred to the provincial delegations through the advance of funds and that, on a number of occasions, gave rise to a qualified audit opinion. However, after much work carried out at the level of the provincial delegations that included the training of local technicians, as from the 2016 financial year, there was decentralisation of the Common Fund for all the provincial delegations and the central services will make a follow-up.

Therefore, it is believed that increasing the financial accountability of the provincial delegations could improve transparency and accountability. The citation represents the attempt of our interviewees to explain the relationship between accountability and the auditor's opinion and that further improvements are expected. However, further studies may be necessary to establish the relationship between the auditor's opinion and improved accountability.

6.3 Main recommendations of the external audit

At this point, we will analyse the main recommendations contained in the audit findings and recommendations. The first point in all reports relates to following up of recommendations from the previous audit and that allow us to know the main recommendations and how to deal with them. With regard to the internal control, in the 2008 audit, the auditor's main recommendation lies on the implementation of an adequate system for controlling funds made available through advances to provincial delegations to ensure that the accountability is in line with the advances made. In the 2009 financial year, in the audit follow-up, the situation described in 2008 is considered to be prevailing and continues to be a recommendation of audit. In the 2010 follow-up, the auditor considered the main recommendation from 2008 and 2009 implemented by the INE management. However, there is a prevailing difference between the advanced and justified funds and the lack of reconciliation of the accounts of the provincial delegations. Still, over this year, periodic counting/physical verification was strongly recommended because of the large movement of census material among the provinces, and the reconciliation of the balances of the provincial delegations accounts. In 2011, in the follow-up, the situations of the account balances and the periodic verification/counting of the inventories were considered resolved while those of the unreconciled balances remained unresolved. However, although in 2011 there were no

advance payments to the provinces, there was a lack of reconciliation of the accounts of the provincial delegations, which partially justified the qualified audit opinion this year. According to our interviewees, “this situation derives from the automatic renewal of balances prior to the following year”. This year the auditor recommended the implementation of the vehicle operating expenses control book and a control manual for consumables whose expenses are borne by the Common Fund.

In the audit follow-up in 2012, the situation of unreconciled accounts was considered settled. However, there was a lack of control of the operating expenses of vehicles and consumables, so it continues as a recommendation. In addition, the recommendation for the insurance of property, plant and equipment purchased was highlighted, a situation that management considers in the follow-up as not provided for in the State’s asset management rules. In the 2013 audit, in the follow-up the lack of control of the operational expenses of vehicles and consumables are considered resolved situations from November 2013 with the approval of Internal Regulation on the Execution of the Budget of the State and the Common Fund. The movement of census goods and surveys in the provinces has once again created problems of physical confirmation of inventories and the auditor recommended the periodic counting/checking and movement recording. In 2014, the auditor found a poor control of the movement of census equipment and surveys among provincial delegations as a prevailing situation, making it difficult to confirm the results. Therefore, the auditor recommended the recording of movements and periodic control of inventories.

In 2010, as previously mentioned, there was a change in the auditor’s report, implying that the reports of conclusions and recommendations would include reference to situations of legal compliance. For this financial year, the auditor considered that the examinations carried out complied with the *Decree No. 15/2010 of 24 May of the Council of Ministers of Mozambique (2010)* in the acquisition of goods and the contracting of services under the Common Fund. However, the auditor noted the lack of signature of the Partnership Committee meetings minutes, thus lacking the proof of participation of all members and of the agreements on the issues discussed. The inclusion of their signature was therefore recommended.

With regard to legal compliance in 2011, the auditor considers that the procedures for acquiring goods and services during the period comply with all aspects. Nevertheless, the auditor also recommends signing the Partnership Committee meetings minutes. The lack of signatures in the minutes was commented by the management in the follow-up and considered that the situation was not resolved since it was not accepted by all partners of the Common Fund.

In the follow-up of 2012, the signature of the minutes of the Partnership Committee meetings was considered an unresolved situation. The management justified it by the fact it has not been consensually agreed by the members of the Partnership Committee.

In relation to legal compliance, the auditor considered that the acquisition of goods and services complied with the *Decree No. 15/2010 of 24 May of the Council of Ministers of Mozambique (2010)* and also recommended signing the minutes of the Partnership Committee meetings.

There was another important point related to legal compliance in 2012 – the auditor verified the default on the transfer of funds to the Bank of Mozambique’s Forex account, in which UNFPA transferred 100,000USD to the INE’s account at the International Bank of Mozambique, breaching the terms of the MOU. Therefore, the auditor recommended that all funds should be transferred directly to the Forex account at the Bank of Mozambique as established in the MOU. This situation was justified by the management as resulting from the late disbursement; however, it was then corrected in coordination with the National

Directorate of the Treasury with a transfer of the funds to the single account of the treasury. In the evaluation of legal compliance in 2013, the auditor considered compliance in all material aspects of the *Decree No. 15/2010 of 24 May of the Council of Ministers of Mozambique (2010)* for the acquisition of goods and services. In this year, although the signing of the minutes of the Partnership Committee meetings was not considered to have been resolved, it was no longer the auditor's recommendation. According to our interviewees "the auditor was informed that the partners agreed that one of the representatives would sign the minutes of the Partnership Committee meetings". In 2014, in the evaluation of legal compliance, the auditor concluded that there were no default situations.

With regard to legal compliance, the results show that the auditor's work at this point was limited to only two situations, the analysis of compliance with the *Decree No. 15/2010 of 24 May of the Council of Ministers of Mozambique (2010)* concerning the rules for the acquisition of goods and provision of services in the State and analysis of compliance with agreements and the MOU. In the first situation, the conclusions were generic and equal in all years, in the sense that the rules and regulations have been met, providing no broad basis for reflection as to whether such acquisitions were made in accordance with planned activities. In the perception of our interviewees this situation of generic analysis by the external auditor is a situation that is being discussed at this moment and that can be changed in the future with the improvement of the terms of reference of audit services agreement that in turn guide the scope of the auditor's work. Although the results indicate an often generic analysis of the legal compliance by the external auditor, they demonstrate full response to the first level of *Laughlin's (1990)* Model of Accountability for compliance with laws and regulations. In the second situation, we find that the lack of signature of the Partnership Committee meetings minutes is recurring in the audit recommendations and it is considered by the auditor to be of high risk. The *Laughlin's (1990)* Model of Accountability being based on the agency theory supports the second situation in the sense that there are formal and informal agreements between the agent and the principal that support the relationships of responsibility.

6.4 Degree of integration of audit recommendations in annual plans

To verify the level of integration of the audit recommendations into the annual activity and budget plans, we analysed the plans from 2010 to 2015. In these plans, it was possible to verify that there is a specific project for audit and management of financial resources. Activities related to external auditing and implementation of the recommendations are described in the project. The plan also describes the means for verifying the performance of each activity according to *Table IV*.

Through the analysis it was possible to verify that there is a concern about the management on integrating the main recommendations into the plan of activities and budget. However, the integration is often generic; therefore, we have to analyse this information in conjunction with the analysis of the external audit that we performed in the previous point.

Thus, it is possible to confirm the great concern about the management regarding the recommendations of the audit, as they are always included in the annual plans in general and concrete terms and many of the situations were considered by the auditor to have been resolved. Nevertheless, it is not possible to determine the degree of integration and so it is not possible to respond objectively to sub-question no. 3.

According to *Mzenzi and Gaspar (2015)*, for a public sector audit to contribute to accountability, it is required, among other things, the effective implementation of audit recommendations which depends on the extent to which the audited entity makes use of the

Year	Activities in Project Management of Financial Resources and Audit	Means of verification
2015	Carry out an annual audit to ensure the Mozambique National Institute of Statistics financial resources management system is adequate to carry out the strategic plan Implementation of the external audit recommendations in the Provincial Delegations Conduct seminars to harmonize administrative processes	Audit report Follow-up Seminar report
2014	Carry out an annual audit to ensure the Mozambique National Institute of Statistics financial resources management system is adequate to carry out the strategic plan Holding of seminars to publicize the new procedures for the management of the State Budget and the Common Fund	Audit report Follow-up and report.
2013	Prepare external audit Implementation of new procedures for the management of the State Budget and the Common Fund; Holding of regional seminars	Audit report Reports
2012	Creation of internal audit unit targeting all the processes of emergent accounts Improve mastery of the regulation on the contracting of services and supply of goods to the State	Unit created Duly elaborated contracts
2011	Holding of seminars on financial management in the central services of the National Institute of Statistics and in the provincial delegations	Reports
2010	Holding of seminars on financial management in the central services of the National Institute of Statistics and in the provincial delegations	Reports

Table IV.
Evidence of integration of audit recommendations into annual audit and budget plans

recommendations. [International Organisation of Supreme Audit Institutions \(INTOSAI\) \(1993\)](#) adds that audit recommendations exercise the corrective function which reinforces accountability. Our results indicate that the audit of the Common Fund typically provides two types of recommendations: internal control and legal compliance. The starting point in all reports of the findings and recommendations of the audit of the Common Fund is the follow-up of the recommendations of the previous audit. From our analysis, it was possible to verify that the auditor considered most of the recommendations implemented by the management. As our interviewed stated:

In 2011, it was decided that the advance of funds for the provincial delegations should stop until the external auditor's recommendations have been fully implemented. Much work has been done even with limited resources that sometimes limit simultaneous implementation in all delegations. At the moment, there is a belief that the technicians of the provincial delegations are better able and have begun to manage, at the local level, the funds through decentralisation.

In the perception of the interviewees, the recommendations have been gradually implemented in all delegations.

The main recommendations on internal control were about the implementation of advances to provincial delegations, periodic counting of inventories because of movement of goods from surveys and censuses, recording of car expenses used in projects funded by the Common Fund and registration of goods. These recommendations were considered to be implemented by the auditor.

The results of the previous empirical studies ([Mzenzi and Gaspar, 2015](#); [Ng, 2002](#); [Raudla et al., 2016](#); [Chowdhury et al., 2005](#); [Salawu and Agbeja, 2007](#)) are mixed

regarding the impact of external audit on the management of public funds and/or accountability. The results of this research show that the external audit of the Common Fund contributes to a better accountability and consequently to a sound management of public funds. This is attributed to the implementation of the external audit recommendations. The concern about the management regarding the implementation of external audit recommendations is justified in [Laughlin's \(1990\)](#) Model of Accountability as a result of the agent's strong financial dependence on the principal. We note that the principal mentioned herein does not refer to the population as in the other studies quoted. In our study, the principal corresponds to the funders of the Common Fund and the agent is the INE.

We note that the principal mentioned herein refers to the population, thus differing from the other studies quoted. In our study, as referenced by [Castel-Branco \(2011\)](#), the principal corresponds to the funders of the Common Fund and the agent is the, the principal corresponds to the funders of the Common Fund and the agent is the INE. Our research thus contributes to a better understanding of the role of external audit in the management of public funds in the context of developing countries that depend on the aid of International Governments and Organisations to finance their State Budgets.

7. Conclusions

Mozambique is one of the countries with high external dependence for financing the State Budget, and the Common Fund is the main financing mechanism. The term Common Fund applies to the general level of the General State Budget and to the particular level of the public institutions/services financed by this mechanism. In addition, external audit in the public sector has become a means for increasing efficiency and effectiveness in the management and serves as a mechanism required for giving reliability to accountability. As in other countries, Mozambique has supreme institutions for external and internal control of the public funds management, namely the Administrative Court, the Assembly of the Republic of Mozambique and the General Inspection of Finance. However, because of the limited nature of these institutions, external funders of the Common Fund require annual external audits carried out by statutory audit firms.

The INE is one of the public institutions with a strong dependence for financing its activities. Therefore, the present paper has analysed the impact of external audit on the management of the Common Fund. In this way, we intend to answer the main research question: "What is the impact of external audit on the accountability of the INE Common?" For this purpose, the analysis was divided into four main points: external auditing trends, external auditors' findings, main external audit recommendations and degree of integration into annual activity and budget plans. Some key precepts of the [Laughlin's \(1990\)](#) Model of Accountability were considered in the analysis of the results.

The results suggest that the Common Fund audit is focused on examining the financial statements, the internal control and compliance of laws and regulations, and it complies with the first level of accountability of the [Laughlin's \(1990\)](#) Model, which is the integrity and legality. The reports analysed do not provide any information on the second level of accountability, which is the performance. However, from analysis of the content of the interviews we conclude that the second level is verified.

Although there have been situations of qualified opinions from the external auditor of the Common Fund and situations of non-compliance with the law, the results generally show a marginal improvement in the trend of the audit findings. It was also possible to conclude

that the external audit recommendations from the Common Fund are normally about the effectiveness of the internal control and legal compliance of the financial statements. In addition, there is a high concern by the management to integrate the implementation of external audit recommendations into the annual activity and budget plans. This could be verified in the follow-up, in which the auditor portrays the recommendations implemented by the management.

In general, through the study we set out to develop, we have been able to conclude that the external audit has a relatively significant impact on the management of the Common Fund. We also conclude that the external audit, in addition to contributing to the accountability of resources received from external funders, has contributed to the management of other funds allocated to the INE. We attribute a positive impact to the high concern of management to implement the external audit recommendations, associated with the financial dependence between the agent (the National Institute of Statistics) and the principal (funders of the Common Fund) explained by Laughlin's (1990) Model of Accountability. These observations contribute to the existing body of literature on the relationship between external auditing and accountability and to assist in the formulation of public policies on external financing to developing countries.

The limitations of our investigation are mainly because of the impossibility of generalising our conclusions, as we have only analysed one organisation that is a beneficiary of the Common Fund. This is associated with non-disclosure of external audit reports by the beneficiary institutions of the Common Fund and the existence of large administrative barriers to accessing information. On the other hand, we have not found any similar study applied to the Common Fund and that has prevented us from comparing our results with other similar ones. The comparative studies found are from relatively different realities to that of Mozambique's and the Common Fund and refer to audits performed by the Supreme Audit Institutions. In addition, there was a limitation in extending the primary sources because of the distance and the means used.

Given these limitations, there is room for future research in the impact of external audit on the management of the Common Fund. In this context, considering the limitations exposed, the methodology followed by Raudla *et al.* (2016) could be an alternative that would involve applying questionnaires survey to officials of the institutions with annual audits of the Common Fund.

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