



# **ST. MARRY UNIVERESITYCOLLEGE**

## **SCHOOL OF GARADUATE STUDIES**

### **ASSESEMENT OF INTERNAL AUDIT PRACTICE IN THE PUPLIC SECTOR: In Case of Yeka Sub City Administration office.**

**By: -WEYNSHET TSEGAYE**

**Date June, 2017**

**Addis Ababa, Ethiopia**

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Administration office.**

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*A Thesis Submitted to the School of Graduate Studies of St. Marry University in  
Partial Fulfillment of the Requirements for the Degree of Master of Science in  
Accounting and Finance*

**Date June, 2017**

**Addis Ababa, Ethiopia**

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**ST. MARRY UNIVERESITYCOLLEGE**  
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**FACULTY OF BUSINESS**

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## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamawe Getie (Asst. Prof). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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## ENDORSEMENT

This thesis has been submitted to St. Mary's University College School of Graduate Studies for examination with my approval as a university advisor.

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## **Abstract**

*The purpose of this study examine internal audit practice in public sector in case of yeka sub city administration office. The study investigates key problems in internal audit practices regarding of competency of internal auditors, time /program/ of auditing, scope of audit work, independency of the auditor, the management perception about the internal audit, implementation of audit recommendation and the available punishments for violations of internal audit procedures effectively applied in the administration. This descriptive research is conducted by using mixed method approach. Data collection includes questioner with 81 internal auditors, documentary analysis and semi-structured interview with by taking purposive sample of internal audit manager, finance manager and general manager. With these research methods, the findings of the study revealed that competency in terms of educational background but lack of experience and number of staff, internal auditors are not independent, Managements have not good perception about internal auditors and inadequacy of punishments for violation of internal audit procedures at different levels that leads ineffectiveness of internal audit.*

**Key terms:** *Internal Auditing Standard; Internal Audit Practices; Public Sector offices*

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## LIST OF ACRONYMS

CAE: Chief Audit Executive

IA: Internal Audit

IAF: Internal Audit Function

IIA: Institute of Internal Auditing

IIARF: Institute of Internal Auditing Research Foundation

ISPPIA: International Standard for the Professional Practice of Internal Auditing

MoFED: Ministry of Finance and Economic Development



# CHAPTR ONE

## 1. INTRODUCTION

### 1.1. Background of the Research

Public sector offices are part of the public body which is partly or wholly financed by government budget and concerned with providing basic government services to the whole society (MoFED, 2004). The compositions of the public sectors are varied by their function and purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals (Saud, S. and Marchand, N.2012).

The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfill each of these roles (Goodson, S. 2012).

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders (Tariku, T. 2015).

In addition internal Audit is an activity of independent evaluation and management assistance, directed to the examination and evaluation of the adequacy, efficiency and effectiveness of the internal control system, as of the quality of performance of the operational areas in relation to their tasks and plans, goals, objectives, and policies defined for them (Pintol, J. 2014). Similarly, according Ethiopian internal audit manual, auditing is process by which a competent, independent person, accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria.

There are many challenges facing auditors in exercising their job. A challenge, in this context, can be something, which defend or tackle auditors from achieving their objectives. Some of the

challenges identified by the MoFED,(2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development.

In addition a study carried out by Miheret, G. and Yesmaw,W.(2007) on internal audit effectiveness an Ethiopian public sector they found that low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Tariku, T. (2015) in their study entitled ‘Determinant of Internal Auditor Effectiveness: Case of Ethiopian Public Sectors’ the study revealed that organizational independence of internal auditors was the most dominate determinant of internal auditors' effectiveness with positive significant effect. The presence of internal audit charter in public sectors has also positive effect on internal auditors' effectiveness.

Even though, there are some studies on internal practice in Ethiopia they did not entire internal audit practice but only focusing specific points for example, Abdi, H. (2013) do not investigate other practice only examine the relationship between Internal auditing practices and internal control system. Fekadu, B. (2009) present evidence on the internal audit practices case of Ethiopian governmental higher educational institutions, focus only two variables modern internal audit practices and management commitment to add value. Mulugeta, S. (2008) on the other hand focuses on the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness.

But there is no any study on internal audit practice in yeka sub city administration. Therefore, this study is conducted on the internal audit practices in the administration with special emphasis competency of internal auditors, time /program/ of auditing, scope of audit work, independency of the auditor, the management perception about the internal audit, implementation of audit recommendation and the available punishments for violations of internal audit procedures effectively applied and to recommend suitable solutions to the problems.

## 1.2. Statement of the Problem

Internal audit improve an organization's operations and services quality by maintaining good internal control system, avoiding corruption, ensuring good corporate governance, promoting accountability and greater transparency. In addition, internal auditors can promote an organization efficiency and effectiveness through providing constructive criticisms and recommendations; reducing information asymmetry in decision making; and assuring internal assertion in the business and financial reporting processes of the organization (Tariku, T. 2015).

According Institute of internal audit, (2011) internal auditing reviews the reliability and integrity of information, compliance with policies and regulations, the safeguarding of assets, the economic and efficient use of resources, and established operational goals and objectives.

Poor application of internal audit principles and procedures leads to blatant diversion of scarce resources with its attendant consequences on the traditional accountability of government to the public (Udeh, S. 2016). Increasing the effectiveness of that specific firm coupled with the role of leading towards the growth of the whole industry which ultimately leads to the overall success of the economy. Health center, School, Wereda and Sub-city are part of government and give public service, implement the government rule and regulation and repair or control system of an economy.

Therefore, the successful audit practice in Health center, School, Wereda and Sub-city is important for government to control and use resources efficiently and effectively. According to Udeh, S.(2016) auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption.

However, few studies are conducted internal audit practice of public sector, such as Abdi, H. (2013) conduct research on the relationship between Internal auditing practices and internal control system of Somali remittance and he conclude that internal auditing practices of remittance is effective. One of the major limitations of the study was a narrow scope. In another study carried out by Kedir et al. (2014) in their study entitled 'Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia', the major parametres for the study they taken competency, compliance, Independency, Risk management and quality assurance, the study



identified competency in terms of educational level, background and experience is in line with the standards and independency is impaired because most of the time they are attached with internal functional areas. Nevertheless, these study collected information to investigate how major internal audit standards are applied in the internal audit departments however number of internal auditor was small proportion compare to total population.

However most of the studies conducted on the assessing of the internal audit practice of public developmental sector of Ethiopia such as Abdi, H. (2013) on remittance firm and Kedir et al. (2014), Mulugeta, S. (2008), Hailemariam, S.(2014) non budgetary government organization.

Thus, assessing of the internal audit practice in the sub- city attract the interest of researcher in terms of competency of internal auditors, time /program/ of auditing, scope of audit work, independency of the auditor, the management perception about the internal audit, implementation of audit recommendation and the available punishments for violations of internal audit procedures effectively applied in the administration of Yeka sub city administration public sector offices. For the reason that the successful audit practice in the Sub-city has contribute to implement of good governance because Health center, School, Wereda and Sub-city are the last government bodies that direct meet to the society in the context of Ethiopia. In addition to this, there is no research on internal audit practice in the sub city before, that among reasons that leads to done this research.

### **1.3. Research Questions**

This study is attached on the following research questions in order to achieve the set objectives

- What is the educational qualification and professional experiences of internal auditors?
- What are the time and scope of audit work in yeka sub city administration?
- To what extent is the availability of independence of internal audit in yeka sub city administration?
- To what extent putting into practice of internal audit recommendation?
- To what extent managers have proper understanding, knowledge and support of internal audit?
- To what extent are the available punishments for violations of internal audit procedures effectively applied in yeka sub city administration

## **1.4. General and specific objective**

### **1.4.1. General objective**

The general objective of the study is to assess the internal audit practice in yeka sub city public sector office.

### **1.4.2. Specific objective**

- To assess the staff quality of internal audit in yeka sub city
- To examine time of audit and scope of audit work in yeka sub city
- To investigate the independency of the auditor in yeka sub city
- To examine the implementation of internal auditor recommendation in yeka sub city
- To examine the management perception about the internal audit
- To assess the available punishments for violations of internal audit procedures effectively applied.

## **1.5. Significance of The Study**

The internal audit service is currently being considered as a good contributor to in the achievement of organization objectives and can improve organization efficiency. Therefore the researcher believes that the result of this research would have the following significances

- This research can be help the management of the Administration or the internal audit office to improve or strengthen internal audit quality , to be aware of the importance use of internal audit, and gives insight how they use the internal audit service most efficiency.
- May also serve as act as a source of information for other researchers who intend to do research on internal audit practice

## **1.6. Scope and Limitation of the Study**

### **1.6.1. Scope of the study**

The focus of this study is on internal audit practice in yeka sub city administration such as yeka sub city, wereda, schools and health center only and it will be more successful if it is conducted in all public sector offices under the administration. Besides that, internal audit practice consists broad concepts and issues, this study focuses only five variables such as the quality of internal audit, time and scope of audit work, independency of the auditor, implementation of internal

auditor recommendation, management perception about the internal audit and available punishments for violations of internal audit procedures effectively applied.

### **1.6.2. Limitation**

The limitation of the study mean the constraints that the researcher may face during the study which is purposive sampling procedure decreases the generalizability of findings and this study might not be generalizable to all areas. Besides that, there were also some restrictions in the interview sessions. Some of the interviewees did not allow their conversation to be recorded. There were also some interviewees who allowed their conversation to be partially recorded. Hence, interviewers faced difficulties to recap their good points. In addition the researcher assesse only some offices in the sub city documentary sources which might affect the findings of the research.

### **1.7. Organization of the Study**

In addition to the preliminary page, this research paper consists of five chapters. The first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research questions, research objectives, significant of the study and scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit practices. The third chapter expresses the information regarding the sampling techniques used to conduct the research. The four chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about the conclusions and recommendations of the study followed by the references and appendixes.

## CHAPTER TWO

### 2. RELATED LITERATURE REVIEW

This chapter presents the review of related literature. The chapter is organized in two sections. The first section reviews theoretical studies on internal auditing practices while the second section presents the empirical evidence on internal auditing practices and related issues.

#### 2.1. Theoretical Review

In this section it presents theoretical review of relating to internal audit and its practices.

##### 2.1.1. Internal Audit Definition

The IIA (1999) presented a broad definition of internal auditing as; “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. According to the Glossary to the IIA standards differentiate independent and objectivity concepts as; “Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity, such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.” And, “Objectivity: An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.”

According to Pintol, J. (2014) internal Audit is an instrument of administrative control and systematic verification of the effectiveness and efficiency of occupational activities in the company; it evaluates the entity’s internal controls and its administrative and occupational processes, analyzing the failures and the risk involved and gives broad based recommendations for remediation of anomalies. The Internal Audit work aims to protect the company’s assets against frauds or intentional misstatements.

According to the IIARF, (2008) an internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. Today’s business world, internal auditors plays key role in businesses.

Internal auditors review organizational goals, processes and operations and provide professional advice to the management.

### 2.1.2. Types of Audits

According to Ethiopian internal audit manual auditing can be mainly grouped into four types:-

**Financial audit:** involves verification of financial data to express opinion on their validity and reliability.

**Compliance audit:** involves verifying adherence to policies, plans, procedures, laws and regulations.

**Value for money (performance) audit:** is a forward looking evaluation of operations to identify areas in which economy, efficiency and effectiveness (the three E's) may be improved or to evaluate compliance with and the adequacy of operational policies, plans and procedures. It involves evaluation of inputs, process and outputs. Other names used to describe this type of audit include Operational, Management and Three E audit.

**Environmental audit:** is an audit which confirms the degree of compliance with both internally and externally determined emission and pollution standards (MoFED, 2004).

### 2.1.3. The Development of Internal Audit in Ethiopia

According to MoFED, (2004) the history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s just about the time when internal audit was evolving as an organized profession in the United States. Internal audit in Ethiopia, had its early legislative root in the Constitution of 1923 which authorized the establishment of an "Audit Commission" (Articles 34); and the Audit Commission itself was established much later by Proclamation 69/1944 to audit the accounts of the Ministry of Finance.

The same Proclamation mandated the then Ministry of Finance to audit other budgetary institutions as a measure of internal control over the financial operations of the budgetary institutions. It appears that this early practice of internal auditing as per Proclamation 69/1944 was, in fact, to be the root of what the Inspection Department of the Ministry of Finance and Economic Development continued to perform to this day, until the recent reorganization.

The latter part of the 1940s witnessed the establishment of internal audit functions in key public sector institutions such as the national defense, education, road construction, and other non-

budgetary public sectors, which included the Ethiopian Airlines, Telecommunication and the financial sector consisting of the modern layer of the Ethiopian economy. These institutions in one way or the other had external links or financing operations, which created awareness of the need for internal controls to sectarian appropriate financial management and to safeguard organizational assets.

Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia's (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zelege, B. 2007).

#### **2.1.4. Key Elements of Audit Activity an Effective Public Sector**

According to Goodson, S.(2012) protect the public interest, every public sector entity requires independent audit activities providing a range of assurance and advisory services — from financial confirmation to performance and operational efficiency — whether through the use of internal or external audit services or a combination of the two. The public sector audit activity's mandate should be as broad as possible to enable it to respond to the full scope of the entity's activities. Although the means to accomplish them will vary, all public sector audit activities require organizational independence, formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff and competent staff.

#### **2.1.5. Audit Competencies**

The first thing that needs to be in place to ensure competent internal auditors is effective human resource policies and practices. Porter, B. and Gowthroe, C. (2004) describes that high qualification of internal auditors may be an excellent method to reduce the company performance gap. Internal auditors should need high education to understand the responsibility under the corporate law and to perform standard of work.

Internal audit functions need an adequate complement of staff with the appropriate experience and qualifications for the risks and businesses they audit. Harrington, C. (2004) explained that an internal auditor preferably needs an accounting background and understanding of internal control, because of his or her involvement in appraising financial reports and also Staff require continued training in their disciplines and must stay abreast of technological advances and

changes in the organization's business. The internal audit function should also make full advantage of the work and resources of the external auditors by coordinating activities (Fraser, G. & Lindsay, H., 2007).

In addition internal auditors may improve their competencies, benefit their organizations and increase their opportunities for career advancement by identifying and prioritizing core competencies. James, A. (2010) identifies common core competencies those are communication skills including oral, written, report writing and presentation; problem identification and solution skills such as core, conceptual and analytical thinking; and keeping up to date with industry and regulatory changes and professional standard.

#### **2.1.6. Independence of Internal Audit Function**

Wahid, A. (2012), discussed that the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/ her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his /her opinion.

The IIA's Standards for Professional Practice of Internal Auditing glossary) defines independence of internal auditors as: 'The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels'(IIA 2011b).

According to Poysti, T. (2007), auditors and audit organizations have a responsibility to maintain independence, so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. An auditor should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditor is not able to maintain independence and, thus, is not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels. (IIA Guide 1100)

### **2.1.7. Scope of Work**

By 1993 the statement of responsibility of internal audit issued at institute of internal auditor noted that the scope of internal auditing is to investigate and assess of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibility. Internal auditor should review the accuracy and reliability of financial statement and the means of identify, measure, classify and reporting, review the system designed to ensure the compliance of policies, procedures and should determine whether company is compliance with those rules, review whether the company's assets are used appropriately and ensure that the assets are safe and verify the existence of such assets, evaluate the efficiency and effective way which resources are used, review operations to find out whether results are conformity with the established objectives and goals and whether the operations are being functioning as intended (IIARF, 2008).

In addition MoFED, (2004) noted that internal audit should fulfill its duty by Safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

### **2.1.8. Manager's Response for Internal Audit Findings and Recommendations**

Internal audit reports are only of value when managers address the problems and deficiencies identified by the audits or make informed decisions to accept the risks. Audit committees and senior management play an important role by monitoring and enforcing commitments to take corrective action.

The CEO and senior management team establish the "Tone at the Top" that is critical to the success, value and credibility of the internal audit function.

Line managers do not always view the role of internal audit positively and it can require great skill and diplomacy to obtain their cooperation on audits. Open support and monitoring of internal audit activities by the CEO and the audit committee can help ensure that all managers cooperate with the internal auditors (Fraser, G. & Lindsay, H. 2007).



### **2.1.9. Time of Audit**

To achieve audit objectives of each assignment it is essential to develop an audit program. It is the link between the survey and the actual audit work. Audit program serves as a guide for the actual audit and provides a means of monitoring and controlling the progress and completion of the audit. It also helps as a basis for assigning each aspect of the audit assignment. In addition, it provides a record of the work done.

According to John,S.(2001). Internal auditing is an appealing context for concentrating on the timing aspect of information. While a continuous or a constant periodic flow is reasonable for many types of accounting information, the same is not true for internal audit information. Internal audits typically are scheduled at relatively infrequent intervals of time and, thus, the timeliness dimension of information takes on added significance.

### **2.1.10. Role and Responsibility of Internal Auditor**

The basic role of internal auditing is to help management achieve company goals. It also provides assurance that management has implemented a satisfactory internal control system to prevent risks. In addition, internal auditing should provide internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels (IIA, 2011).

Auditors assist decision-makers in exercising oversight by evaluating whether public sector entities are doing what they are supposed to do, spending funds for the intended purpose, and complying with laws and regulations; Auditors provide insight to assist decision-makers by assessing which programs and policies are working and which are not, sharing best practices and benchmarking information, and looking horizontally across public sector entities and vertically among the levels of the public sector to find opportunities to borrow, adapt, or reengineer management practices(Pickett, C. 2005;Udeh, S. 2016).

Auditors also help their organizations look forward by identifying trends and bringing attention to emerging challenges before they become crises. Because the public sector's success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, public sector audit activities should have the authority and the competency to evaluate financial and program compliance, effectiveness, economy, and

efficiency. Moreover, auditors also must protect the core values of the public sector, as it serves all citizens (Goodson, S.2012).

#### **2.1.11. Future of Public Audit and Accountability**

Future of public audit lies in the role of audit and accountability in the conception of democracy and good governance. The basic need of public audit is constant. In the future the Supreme Audit Institutions, through their audits and related consultancy service, will continue to be strong actors in the assurance of accountability and in the enhancement of good governance. They will continue to be strong actors in the creation trust towards public institutions and, eventually, in creation of trust to public finances (Poysti, T. 2007).

The challenges for accountability in the context of social and economic change call for a better connection between audit and the exercise of legislative and budgetary power. To serve living democracy audit is expected to have more focus on the quality of governance and on the critical and objective appraisal of the effectiveness of various public policy programs (Sahgal, V. 1996).

An audit will be closer to the challenges of economic and fiscal policy. Public audit has to ensure that structures, procedures, management and actual behaviors of the governance and managements system uses resources according to the democratic decisions and produces the results and services – the common goods - intended by democratic decision makers. Public audit will have an increasing role in the assurance of the quality of regulatory management. In financial audit more weight needs to be given to a risk based approach combined with audit and certification of the quality of management, control and accounting systems (Walker, D. 2007).

## **2.2.Review of empirical study.**

This section presents reviews of the empirical studies on the internal audit practices in public government, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented.

There are studies reviewed regarding internal audit, Miheret, G.and Yesmaw, W.(2007) studied internal audit effectiveness in Ethiopian public sector, Fekadu, B. (2009) studied internal audit practice a case of Ethiopian governmental higher educational institution, Abdi, H. (2013) studied internal auditing practices and internal control system in Somali remittance, Saud, S. and Marchand, N. (2012) studied Contribution of Internal Audit in the Achievement of Corporate Goals A Case of Sweden and Pakistan, Hailemariam, S.(2014), studied determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices, Kedir et al. (2014) studied internal auditing standard and its practice the case of east Arsi Zone, Ethiopia and Tariku, T. (2015) studied determinants of internal auditor's Effectiveness case of Ethiopian public sectors.

### **2.2.1. Internal Audit Charter**

Research findings by Hailemariam, S. (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests that the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. Miheret, G. and Yesmaw, W.(2007) studied internal audit effectiveness in Ethiopian public sector, commonalities in policies, procedures and organizational contexts of most public sector entities in Ethiopia and the same internal audit manual was used by all public bodies in Ethiopia (MoFED, 2004). To enhance the quality of data through triangulation, multiple data sources were used. Primary data were collected via questionnaires distributed to internal audit personnel and an interview was conducted with the internal audit director. A review of relevant documents served as means of generating secondary data. The study argued organizational setting do not have a strong impact on audit effectiveness.

The study results by Mulugeta, S. (2008) on internal audit reporting relationship in Ethiopian public enterprises based on both stratified and random sampling method and primary and secondary data collection method also Both quantitative and qualitative data analysis method

were used, argued that the audit charter is not effectively communicated in those organizations. Additionally it shows it is vague and/ or need clarity.

Besides, Fekadu, B. (2009) studied on internal audit practices a case of Ethiopian governmental higher educational institutions, in this study seven internal auditors were used as data source which were selected using convenience sampling techniques, and used as data gathering tools open-ended and closed ended questionnaires so as to obtain the required information. Then qualitative approaches were employed to analyze and interpret the filled in data. The result indicated that all sample respondents assured the absence of audit charter in each of their respective university rather all respondents stated that they are currently using the audit manual of the government.

Tariku, T. (2015) studied determinants of internal auditor's Effectiveness case of Ethiopian public sectors, the presence of internal audit charter in public sectors has also positive effect on internal auditors' effectiveness.

#### **2.2.2. Factors that Affect Internal Audit Effectiveness**

Miheret, G. and Yesmaw, W. (2007) studied highlight that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness. Similarly, research finding by Tariku, T. (2015) revealed that organizational independence of internal auditors was the most dominant determinant of internal auditors' effectiveness with positive significant effect. The presence of internal audit charter in public sectors has also positive effect on internal auditors' effectiveness. Hailemariam, S. (2014) based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sector office, suggests that the management support contributed for the internal audit effectiveness in the public sector significantly and positively.

#### **2.2.3. Audit recommendation**

Miheret, G. and Yesmaw, W. (2007) indicated that the auditors feel that the university does not sufficiently utilize audit reports and the management's response to the internal audit findings and recommendations is generally not adequate. Additionally there is no mechanism in place to follow-up implementation of audit recommendations.

#### **2.2.4. Independency of internal auditor**

Research findings by Tariku, T. (2015) studied determinants of internal auditor's Effectiveness case of Ethiopian public sectors, the study revealed that organizational independence of internal auditors is the most dominate determinant of internal auditors' effectiveness with positive significant effect. Hailemariam, S. (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests organizational independent of internal auditors were positively related with the IAE but their contribution for the IAE were statistically not significance. Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia. Accordingly competency, compliance, independency, risk management and quality assurance has been taken as major parameters for comparison. 36 questionnaires were distributed for the target population, and questionnaires were designed to measure the level of agreement of the respondents on the applicability of each parameter. This study revealed that auditors independency is impaired because most of the time they are attached with internal functional areas. Also Fekadu, B. (2009) revealed that all sample respondents stated that their CAE functionally reports to the president office that has forced them to lose their independence. Contrarily, Mulugeta, S. (2008) shown majority of his sample respondents believe that the current internal audit structure promotes independency. Study conducted by Miheret, G. and Yesmaw, W. (2007) indicated that the internal audit office reports to the President but the office does not administer its own budget.

#### **2.2.5. Scope of Internal Audit**

The study by Mulugeta, S. (2008) indicated that the activities of IAF are more of traditional type that emphasize on verification of accounts, compliance, internal control and a little on fraud investigation. Similarly, Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia concluded that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Miheret, G. and Yesmaw, W. (2007) highlighted that the scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness.

### 2.2.6. Professional proficiency

Miheret, G. and Yesmaw, W. (2007) shown that the internal audit office of the organization studies has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Furthermore, most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service. Fekadu, B. (2009) noted that according to his sample response in Ethiopian higher governmental institutions internal auditors' qualification is adequate for internal audit activities. Also, Mulugeta, S. (2008) revealed that majority of sample respondents noted that Size internal audit staffs are not sufficient but they are qualified. Similarly, Kedir et al. (2014) stated according data collected to the employees of public enterprises in East Arsi zone, all staffs in the internal auditing department of selected public enterprises found to be competent in terms of educational background, qualification and experience. But the size of the IA staff is small due to the wrong perceptions that they are enough for financial and compliance audits. But ideally they are not sufficient Saud S and Marchand N, (2012) revealed that the number of audit staff can affect the results of an audit, assigning different responsibilities to one person causes inefficiency in operations.

Fekadu, B. (2009) revealed there is no quality assurances program internal audit department, no external quality assessment every five years and hence, no recent quality assessment results communicated by CAE in the Ethiopian higher governmental institutions. Likewise, Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia revealed that public enterprises 'audit department has quality assurance programs. Miheret, G. and Yesmaw, W. (2007) has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Finally more effort should be directed at recruiting quality internal audit staff and updating their knowledge than engaging in interminable search for error – proof internal audit procedures.

### 2.2.7. Management Support

Internal auditors have a close relationship with organization's management in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the

auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works.

Management support has a far-reaching consequence on IA effectiveness in organizations. For example, Miheret, G. and Yesmaw, W. (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Saud, S. and Marchand, N. (2012) studied Contribution of Internal Audit in the Achievement of Corporate Goals A Case of Sweden and Pakistan revealed revealed that top management support not only improves auditor efficiency but also encourage their involvement in risk prevention.

### **2.3. Summary and knowledge gap**

In general, the literature review indicates that internal auditing role is wide. Within the context of improving risk management, control and governance processes, and the type of work undertaken to add value to an organization will vary greatly. But there are few studies work on internal audit practices in Ethiopia but they are not cover all component of internal audit practices. For example, Hailemariam, S. (2014) do investigate the management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, through the questionnaires administered without considering interview and document analysis. Mulugeta, S. (2008) on the other hand focuses on the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness. Lastly, Kedir et al. (2014) present evidence on the Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia, to obtain the required information number of internal auditor was small proportion compare to total population.

Therefore this study use majority from total population and asses internal audit practice in terms of competency of internal auditors, time /program/ of auditing, scope of audit work, independency of the auditor, the management perception about the internal audit, implementation of audit recommendation and the available punishments for violations of internal

audit procedures effectively applied in the administration of Yeka sub city administration public sector offices.

This study is needed for three reasons. Firstly, there is no reliable and comprehensive study on internal audit practice in the sub city before Secondly, it will pave the way forward for the government, and other stakeholders to understand the internal audit practice in the administration public sector offices. Finally, this study advances the knowledge of internal auditing in public sector offices. May also serve as act as a source of information for other researchers who intend to do research on internal audit practice.



## CHAPTER 3

### 3. RESEARCH METHODOLOGY

#### 3.1. Research Design

A research design is not just a work plan. A work plan details what has to be done to complete the project but the work plan will follow from the project's research design. The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. Obtaining relevant evidence entails specifying the type of evidence needed to answer the research question, to test a theory, to evaluate a program or to accurately describe some phenomenon. In other words, when designing research we need to ask: given this research question (or theory), what type of evidence is needed to answer the question (or test the theory) in a convincing way? Research design 'deals with a logical problem and not a logistical problem' (Creswell, J. 2003; Yin, R. 1989). In this chapter 3.1 presents research design, this is followed by research approaches in section 3.2. Finally a research method adopted is presented in section 3.3.

#### 3.2. Research Approach

When conducting a research, there are different ways of approaching the problem. According to Creswell, J. (2009), there are three approaches of research; quantitative, qualitative and mixed. The following discussions briefly presents the basic features of these research approaches.

##### 3.2.1. Qualitative Research Approach

Explores attitudes, behaviors and experiences through methods such as in-depth interview and/or focus group discussion (Dawson, C. 2002). It uses narrative, phenomenological, ethnographies, grounded theory and case studies. The researcher collects open-ended emerging data with the primary intent of developing themes from the data (Creswell, J. 2007). Qualitative approach attempts to get an in-depth opinion from participants. Apart from this, it facilitates responses, and provides data in-depth with leading respondents (Dawson, C. 2002). It is capable to generate a theory by addressing issues which cannot be quantified. It also explores issues which are not studied in the past properly (Creswell, J. 2007). However, this approach has been given less than a fair sense of appreciation. It has been criticized for lack of scientific rigor, small samples, subjective and nonreplicable efforts. The researcher's interference in the research process is very

high that results bias due to small sample size and uniqueness of the research setting. It is also very difficult to make generalization to the whole population.

### **3.2.2. Quantitative Research Approach**

Generates statistical data through the use of large scale survey research, using methods such as close-ended questionnaires and/or structured interviews (Dawson, C. 2002). Creswell, J. (2007) noted that quantitative approach employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield numeric data that can be analyzed using statistical procedures. It is a means for testing objective theories through examining the relationship among variables. It is advantageous as it, procedurally, follow scientific approach, tests reliability and validity of the instrument. It minimizes bias from the researchers influence and employs large sample size. Hence, the results can be believed on and the results can be generalized to larger population. However, it is not capable to address issues which cannot be quantified. So that, it may has limited scope.

### **3.2.3. Mixed Methods Approach**

Mixed method approach is the blend of both qualitative and quantitative approaches. It employs strategies of inquiry that involves collecting data either simultaneously or sequentially to best understand the research problem. The data collection involves gathering both numeric information and text information (Creswell, J. 2009). Mixed approach includes the use of theory deductively in theory testing and verification, or inductively in an emerging theory or pattern (Creswell, J. 2003). Therefore, the combination provides an expanded understanding of the research problems. It utilizes the strengths and overcomes the weaknesses of the two continuum approaches. However, incorporating both designs requires a great level of effort from the researcher such as need for extensive data collection. Mixed approach characterized by its time-intensive nature of analyzing both numeric and text data.

### **3.3. Research Methods Adopted and Technique**

This study was incorporated both quantitative and qualitative research approaches (mixed methods) in order to generate the advantage of both approaches and to address different objectives of the study, which cannot be achieved by a single method. Therefore, employing mixed approach is used to counterbalance the biases (limitations) of applying any of a single approach and a means to offset the weaknesses inherent within method with the strengths of the

other method (Creswell, J. 2003). In addition, adopting mixed approach in this study is justified as it provides the best understanding of a research problem because it opens the door to multiple methods of data collection and to both generalize the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, J. 2003).

To undertake this research, the specific methods used descriptive research design through survey, semi structured interview and document sources.

### **Quantitative Aspect-Survey Design**

Survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Its purpose is to generalize from a sample to a population so that inferences can be made and it is also economical and rapid turnaround in data collection (Creswell, J. 2003); and this method is important for collecting large amounts of raw data using question and answer formats (Hair, et al., 2006).

Survey was conducted via self-administered questionnaire for all 81 internal auditors under yeka sub city, due to questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy, P.2013).

### **Semi-structured Interview**

An interview is a purposeful discussion with two or more people, and helps the researcher to gather valid and reliable data that are relevant to achieve research questions and objectives. Interviews may be structured (using standardized questions for each respondent), semi-structured, and unstructured conversations (Leedy, P.2013). Structured interview uses pre-established questions, asked in a predetermined order, using a standard mode of delivery.

On the other hand, unstructured interview attempts to draw out information, attitudes, opinions, and beliefs around particular themes, ideas, and issues without the aid of predetermined questions (Kothari, E.2004).

As Dawson, C. (2002) noted, semi-structured interview helps the researcher to utilize the advantage of both structured and unstructured interview, so that the interview remains flexible and other important information can still arise.

This study was adopted semi-structured interview to explore the data that is unclear for the researcher and the information that was not be collected through survey and document analysis. The interview was from purposely selected with internal audit directorate, finance directorate, finance manager and General Manager of yeka sub city.

### **Documentary Sources**

A review of internal audit reports, plans, and policy and procedural manuals serves as documentary sources. The most important use of this documentary source is to corroborate and augment evidence from other sources (Yin, R. 1989). Thus, the document examination was used to corroborate the patterns that evolved from the data collected via questionnaires and interview, so that the validity of the findings could be enhanced.

### **Sampling Mechanism**

Sampling is the process or technique of selecting a suitable sample for the purpose of determining parameters or characteristics of the whole population. Regarding to this Leary, Z. (2004) noted that, sampling refers to drawing a sample or selecting a subset of elements from a population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately measuring opinions and characteristics of a population. The usual goal in sampling is to produce a representative sample. As it is stated by Leary, Z. (2004) perfect representative sample would be a mirror image of the population from which it was selected.

The target populations for this research were the public sector offices which are under yeka sub city administration. In the administration there are land management office, capacity building office, main administration, 13 wereda, 36 school and 13 health center; each having one internal audit department as one unit. Therefore, 81 questionnaires were distributed to 41 yeka sub city public sector that have internal audit staff to collect primary data.

To achieve the research objectives purposive sampling was used so as to include all sectors that have internal audit staffs. Because the use of purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs.

## **Data Collection**

There are two different kinds of data primary and secondary. The primary data are not yet available to get it must be collected and treated. Secondary data are already existing data and are accessible to all (Yin, R. 1989). Secondary data have many advantages; the main advantage is the ability to become familiar with the study without raising too much new data. Therefore it enables targeting and accumulation of knowledge. Furthermore, in preparation for a possible collection of primary data, secondary data enable the researcher to specify the research problem and the research options (Leary, Z. 2004)

The study was used both primary and secondary sources of data, the primary sources of data was obtained from closed ended self-administrated questionnaires for internal auditor and semi structured interviewing with yeka sub city administration internal audit directorate, finance directorate, finance manager and chief manager of yeka sub city . Then audit reports, audit plan and audit manuals all served as means of generating secondary data to this study.

## **Data Analysis Method**

Both quantitative and qualitative data analysis method was used. Based on the nature of the data collected through questionnaires, interview the following procedures and statistical tools was employed.

After data were collected, proper tools and techniques have been used for classification and analysis of data. The main tools that have been applied for classification of data are tables and chart. The analysis of data involves computation of statistics such as mean and standard division analysis methods are applied.

## CHAPTER 4

### 4. RESULT AND DISCUSION

#### 4.1. Introduction

In the previous chapter, the research methodology has been discussed, and the methods adopted for the study to attain the objectives have been stated. In this section, the results of the study are discussed by triangulating the different sources results. The analysis will help us in providing solid answers to our research question and will provides a convincing and concrete conclusion to our research study.

#### 4.2.Data Presentation

##### 4.2.1. Demographic Information and Data Characteristics

**Table 4.1 Profile of the respondents**

Demographic characteristics				
		Frequency	Percent	Cumulative Percent
Sex	Male	32	43.8	43.8
	Female	41	56.2	100.0
	Total	73	100.0	
Qualification	TVET	11	15.1	15.1
	Diploma	29	39.7	54.8
	Degree	33	45.2	100.0
	Total	73	100.0	
Experience as internal audit	Less than 2	50	68.5	68.5
	3-5	12	16.4	84.9
	More than 5	11	15.1	100.0
	Total	73	100.0	

*Source: survey result*

The profile of the respondents is looked upon in terms of: Gender, Age, qualification and experience. Table 4.1 shows the Gender of the respondents 56.2 % of the respondents were female and 43.8% of the respondents were male, showing that most of the respondents

considered as female. This is an indication that both genders were involved in this study and the finding of the study did not suffer from gender bias.

Qualifications of the respondents, majority of them have bachelor degree of university (45.2%) while 39.7% of respondents have diploma and the remaining respondents 15.1 % have TVET certificate. Experiences of the respondents, majority of them (68.5%) are less than 2 years' experience, 16.4% of respondents have 3-4 years' experience and the remaining respondents (15.1%) have more than 5 year experience. These shows that lack of experience it is difficult to perform standard of work.

#### **4.2.2. Internal audit quality**

To contribute in the overall objectives, performance and productivity of a company the internal auditors need right qualifications for their job. According to IIA's standard 1210 on proficiency of the auditor requires that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999b).

Therefore the first objective of this study is to assess the quality of internal audit in the selected offices in yeka sub city administration , in relation to internal audit quality, respondents are required to indicate the extent to which they agree with each of the item by written the number that best describes their perceptions. To achieve this objective the respondents are asked several statements related to internal audit quality. The results are summaries in the following table.

**Table 4.2 Quality of Internal Auditor**

	N	Mean	Std. Deviation
There is a complete internal audit manual to guide internal audit work?	73	1.54	0.70
Internal audit department has enough staff	73	3.91	0.82
Internal auditor in your organization has appropriate educational background?	73	2.16	1.06
Internal auditors possess sufficient experience to understand the organizations systems?	73	4.01	0.57
Internal audit has policies for training of internal audit staff?	73	2.21	1.21
Internal auditors undertake continuous professional development activities?	73	3.89	0.79
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

Accordingly the implication of the above table 4.2 there is a complete internal audit manual to guide internal audit work a mean scores 1.54 and standard division was 0.70. This result showed that there is complete internal audit manual in auditing department. Internal audit department has enough staff a mean scores 3.91 while standard deviation 0.82. This result indicate internal audit department has not enough staff. Internal auditor in your organization has appropriate educational background which has mean scores 2.16 and standard deviation 1.06. This result results that internal auditors has appropriate educational background. Internal auditors possess sufficient experience to understand the organizations systems which was scored by the respondents mean 4.01 while standard deviation is 0.57. Thus, this result shows that there is lack of experience to understand the organizations systems. Internal audit has policies for training of internal audit staff was scores 2.21 and standard deviation 1.11. Thus, this result shows that organization has policies for training of internal audit staff. Internal auditors undertake continuous professional development activities was scored mean 3.89 while standard deviation



was 0.79. This indicates that internal audit staffs are not undertake continuous professional development activities. Moreover, internal auditors were asked during the interview there is a training system which matches with the current working conditions of government organizations. Integrated budget and expenditure system (IBEX) is software which most government organizations were currently using for recording and reporting financial information's, but only the sub city internal auditor took training on it and during interviewing were asked internal audit department is large enough to successfully carry out its duties they responded that internal audit department is not able to carry out its duties and high staff turnover.

### 4.2.3. Scope and time of audit work

#### 4.2.3.1 Time audit

A daily, weekly, monthly or annual internal audit assesses the effectiveness of a company's internal control system and helps uncover evidence of fraud, waste or abuse. Some departments may be audited more frequently than others. For example, a manufacturing process may need daily audits for quality control purposes, while the human resources department may need an annual audit of records and processes (Sarbanes-Oxley Act of 2002).

So in these section, the researcher wanted to investigate how satisfactory was the timing of the audit work in yeka sub city administration. Table 4.3 below shows the descriptive statistics of these internal auditors' responses for the delivered questionnaires

**Table 4.3 Timing of audit work**

	N	Mean	Std. Deviation
You audit the organization frequently?	73	3.12	1.14
How acceptable was the timing of the audit fact-finding?	73	4.25	0.7
How suitable was the duration of audit?	73	4.3	0.66
How tolerable were you with the time it took for internal audit to issue an agreed audit report?	73	4.23	0.67
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

Based on the questionnaires result, The mean response of four questions under internal audit timing were more than 4.00 and the standard deviation were also less than 1.00, except first question which states you audit the organization frequently with mean response of 3.12 and standard deviation of 1.14, Which indicates that the respondents perception were close to one other except first question. Moreover, internal auditors yeka sub city public sector offices were asked during the interview the frequency of audits are satisfactory and the respondents said not auditing as per standards because lack of internal auditor staff.

Based on table 4.3 questionnaire responses evidence revealed that frequency of audit work in your organization was a mean scores 3.12 while standard deviation 1.14. This result indicates that infrequency of internal auditing.

How acceptable was the timing of the audit fact-finding was a mean scores 4.25 while standard deviation was 0.7. This indicates that it takes time to find the fact.

Employees responsible of How suitable was the duration of audit was scores 4.3 and standard deviation 0.66. Thus, this result shows that employees responsible for how suitable was duration of audit are not suitable and internal auditor have constraints on the auditing function.

How tolerable were you with the time it took for internal audit to issue an agreed audit report was according to respondents of the research which scored 4.23 mean and standard 0.67. This result indicates that all of the activities related to an audit work are not completed at that time.

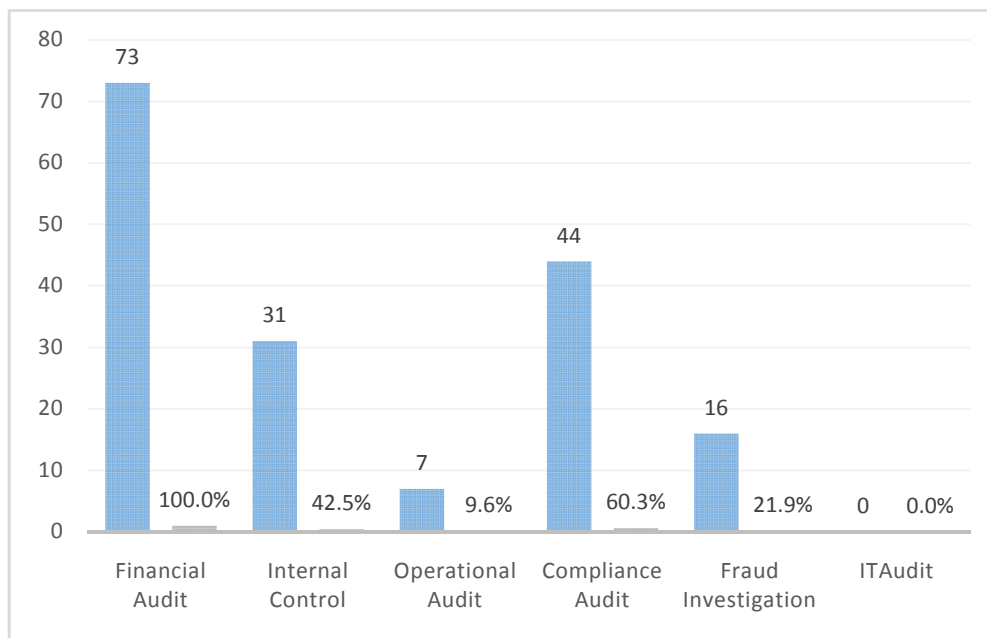
#### **4.2.3.2.Scope of Audit**

According to Sawyer, C. Lawrence, B. (2003) internal auditing more relevant and more interesting through a sharp focus on operational or performance auditing. He strongly encouraged looking beyond financial statements and financial-related auditing into areas such as purchasing, warehousing and distribution, human resources, information technology, facilities management, customer service, field operations and program management.

However, the activities of internal audit function yeka sub city are more of traditional type that emphasize on verification of accounts, compliance, internal control and a little on fraud

investigation. As depicted in figure 4.1 shows that almost all 73(100%) of the respondents were responded that their audit scope included financial audit. 31 (42.5%) of respondents said that Internal control is involved the scope of their auditing activities. Also 7 (9.6%) of respondents responded that operational audit activities is included their audit scope. also 40 (60.3%) respondents said that compliance audit is among internal audit scope of their organization. Additionally, 16 (21.9%) respondents said fraud investigation were among their audit scope. But IT Audit not included scope of the internal audit in their organization. Moreover, interview result indicated that the internal audit scope in the yeka sub city administration public sector is more of financial audit and compliance audit while IT audit is not include yet the scope of the internal audit in the sub city.

**Figure 4.1 scope of internal audit work**



*Source: Survey results*

#### **4.2.4. Independency of Internal Auditors**

An independent auditor not only provides the true and fair report to the management but also increase confidence in the auditor's ability. According Standard 100 of internal auditing standards Independence is to make objective judgment and mental free from directly management responsibility for what he is being audited, he is free to choose any transaction for audit and is allowed access to all necessary information to come up with informal judgments .

Therefore the focus of this section was to determine whether or not the internal audit function is independent in yeka sub city administration. Their responses were analyzed and described using means and standard deviations as summarized in table 4.4 below;

**Table 4.4 Independency of internal auditor**

	N	Mean	Std. Deviation
Is internal auditing's position in your organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence?	73	4.22	.88
Internal auditors have full access to records and information they need in conducting audits?	73	3.89	.82
Do you think internal audit is free from intervention in performing its duties?	73	3.80	1.06
Internal auditors feel free to include any audit findings in their audit reports?	73	3.95	.92
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

According to table 4.4 above, internal auditing position in your organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence which scored mean 4.2 while standard deviation was 0.88. This indicates that most of the selected offices not sufficiently detached from functional areas to guarantee its independence.

Internal auditors have full access to records and information they need in conducting audits were perceived by the respondents scores a mean 3.89 and standard deviation was 0.82. This result indicates that disagreed with existence of audit cooperation from auditee in terms of the internal auditors to have full access to records and information they need in conducting audit.

Internal audit is free from intervention in performing its duties was scored mean 3.80 and standard deviation 1.06. This result states that, internal audit is not free from intervention in performing its duties.

Internal auditors feel free to include any audit findings in their audit reports a mean scores 3.95 while standard deviation 0.92. This result indicates that internal auditors not feel free to include any audit finding in their audit report. In addition, interview result from respondents showed internal auditors are not free from intervention in performing its duties and internal auditors not feel free to include any audit finding in their audit report.

#### 4.2.5. Implementation of Recommendations

Miheret, G. and Yesmaw, W. (2007) noted that IA findings and recommendations will not serve much purpose unless management is committed to implement them. Additionally According to According Standard 100 s Internal audit unit has to follow up the audit result which has been implemented to get assurance that finding result/internal auditors recommendation has been implemented by task unit.

Thus under this title it presents the implementation of internal auditor recommendation in yeka sub city and the below Table 4.5 are consist the respondents level of agreement about implementation of internal audit recommendation.

**Table 4.5 Implementation of Recommendations**

	N	Mean	Std. Deviation
Internal audit function provides an overall opinion to the activity of the organization?	73	3.54	0.7
Is the Management takes timely corrective action based on internal audit recommendations?	73	3.89	0.82
Accountant or manager implements internal audit recommendation?	73	3.93	1.16
Do the internal auditors follow up implementation of corrective actions relating to audit findings?	73	4.01	0.63
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

The mean and standard deviation responses of internal auditors of under yeka sub city administration to questions under implementation of recommendations (or four questions): According to the above table 4.5 presented that internal audit was scored highly mean 3.71 overall and standard deviations 0.82. These results imply that internal audit recommendations are not afforded enough attention.

Internal audit function provides an overall opinion to the activity of the organization was also scored highly mean 3.54 while standard deviation was 0.7.this indicates that internal auditor do not offers over all opinion to the activity of the organization.

Is the Management takes timely corrective action based on internal audit recommendations were scored highly mean 3.89 and standard deviation was 0.82. This result shows that the management do not take corrective action based on internal audit recommendation.

Accountant or manager implement internal audit recommendation was rated mean 3.43 while standard deviation was 1.16. This could indicate that accountant or managers do not give attention to implement internal auditor's recommendation.

Do the internal auditors follow up implementation of corrective actions relating to audit findings? Was scored mean 4.01 and standard deviation was 0.63. This result shows that internal auditors do not follow up implementation of corrective actions relating to audit finding.

#### **4.2.6. Management Perception About the Internal Auditor**

The respondents were asked to express the extent to which they agree on the management perception about the internal audit .The response to this general questions is summarized and displayed as follows:

**Table 4.6 Management perception**

	N	Mean	Std. Deviation
The office/sector has enough awareness and good perception about internal auditing roles?	73	3.6	1.45
The office/sector considers internal auditing practices as a value adding activity and I work smoothly & regularly with the management?	73	4.04	1.12
The office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function?	73	3.58	1.02
The position/status of internal audit is clearly recognized by the management in the office/sector?	73	3.79	1.1
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

The mean response of four questions regarding to extent of management and other organs support, understand and appreciate the role of internal audit function were more than 3.5 and the standard deviation were also more than 1.00 which indicated managements have not good perception about internal auditors. Therefore, respondent’s perception were not close to one other. Based on table 4.6 results internal auditors in the administration public sector offices disagreed with existence of enough awareness and good perception about internal auditing roles, insight of internal auditing practices as a value adding activity and smooth & regular work relation with the management, office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function and internal auditors is clearly recognized by the management . On the other hand, respondents were asked during the interview to what extent management and other organs support, understand the role of internal audit function, internal auditors are distinguished as negative tinkers, fault finders, low potential and qualified staffs in their organizations.

#### 4.2.7. Punishments for Violations of Internal Audit Procedures

Under this section, the respondent general perception on to what extent are the available punishments for violations of internal audit procedures effectively applied in selected yeka sub city administration offices. The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to available punishment in the administration. The effort was also made to calculate the mean and standard deviation of the result as well, and the results are summarized here below in the table as follows table.4.7.

**Table 4.7 Punishment applies when violation of internal audit procedure**

	N	Mean	Std. Deviation
Staffs of internal audit department are motivated to implement the necessary procedures?	73	3.86	1.08
Are there punishments for violations of internal audit procedures in the office /sector?	73	1.79	0.97
Punishments applied for violations of internal audit procedures at different levels are adequate?	73	3.79	0.98
Punishments are applied when violations are noticed?	73	1.95	0.83
Valid N (listwise)	73		

*Source: survey result*

*Note: N- number of respondents; response measurements.....1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree*

As is seen in the table 4.7 above, the mean response of four questions regarding to available punishments for violations of internal audit procedures were two more than 3 and less than two the standard deviation were also less than 1.00 except first question which indicated except first question respondent’s perception were close to one other. A cursory examination of the table reveals that respondents agreed on the availability of punishment and punishment are applied when violation are noticed as shown by mean values of 1.79 and 1.95 respectively but disagreed



on the staff of internal audit departments are effectively motivated to implement the necessary procedures and adequacy of punishments for violation of internal audit procedures at different levels as shown by mean values of 3.86 and 3.79 respectively. On the other hand, respondents were asked during the interview punishments applied for violations of internal audit procedures at different levels are adequate. The study revealed that selected public sector office punishments are not applied equally for different levels.

## CHAPTER FIVE

### 5. SUMMARY OF FINDINGS, CONCLUSION & RECOMMENDATIONS

#### 5.1. Introduction

The preceding chapter consists of the analysis and discussion of the study and the aim of this chapter are to provide the summary of findings, conclusion made and recommendations given.

#### 5.2. Summary of Finding

This study was conducted for the purpose to do assessment of internal audit practice in public sector in case of yeka sub city administration office. In order to achieve its objective the study used both qualitative and quantitative data collected using questionnaire, documentary analysis and in-depth interview. Also, results analysis, the responses obtained from survey of internal audit department staffs was tabulated and interpreted by using SPSS version 20 through descriptive statistics while result from documentary analysis and semi-structured interview with by taking purposive sample of internal audit directorate, finance directorate, finance manager and chief manager of yeka sub city. Based on these, the research finding are summarized as follows.

The questionnaire results showed that there is complete internal audit manual in yeka sub city administration auditing department, internal auditors has appropriate educational background and organization has policies for training of internal audit staff. But internal audit department has not enough staff, there is lack of experience to understand the organizations systems and internal audit staffs are not undertake continuous professional development activities.

From the results of descriptive statistic showed that the frequency of audit is medium, it takes time to find the fact ,duration of audit are not suitable and internal auditor have constraints on the auditing function and all of the activities related to an audit work are not completed based on the plan.

It was also found that almost all 100% of the respondents were responded that their audit scope included financial audit, 42.5% of respondents said that Internal control is involved the scope of their auditing activities. Also 60.3% respondents said that compliance audit is among internal audit scope of their organization. While respondents said about their audit work scope included fraud investigation and operational audit were 21.9 and 9.6 respectively. But IT Audit not included scope of the internal audit in their organization.

From the descriptive statistic results showed that the selected offices not sufficiently detached from functional areas to guarantee its independence, disagreed with existence of audit cooperation from auditee in terms of the internal auditors to have full access to records and information they need in conducting audit, internal audit is not free from intervention in performing its duties and internal auditors not feel free to include any audit finding in their audit report.

The descriptive statistics also indicates that internal auditor do not offers over all opinion to the activity of the organization, the management do not take corrective action based on internal audit recommendation, accountant or managers do not give attention to implement internal auditor's recommendation , internal auditors do not follow up implementation of corrective actions relating to audit finding.

The questionnaire results showed that disagreed with existence of enough awareness and good perception about internal auditing roles; insight of internal auditing practices as a value adding activity and smooth & regular work relation with the management; office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function and internal auditors is clearly recognized by the management. On the other hand, respondents were asked during the interview internal auditors are distinguished as negative tinkers, fault finders, low potential and qualified staffs in their organizations.

From the result of descriptive statistics show that respondents agreed on the availability of punishment and punishment are applied when violation are noticed but disagreed on the staff of internal audit departments are effectively motivated to implement the necessary procedures and adequacy of punishments for violation of internal audit procedures at different levels.

### **5.3. Conclusion**

In selected public sectors the Internal Auditing practice has been seen from competency of internal auditors, time /program/ of auditing, scope of audit work, independency of the auditor, the management perception about the internal audit, implementation of audit recommendation and the available punishments for violations of internal audit procedures effectively applied points. It conclude that:-

Internal auditors has appropriate educational background and organization has policies for training of internal audit staff. But the size of the IA staff is small, there is lack of experience and internal audit staffs are not undertake continuous professional development activities, which would limit its capacity to evaluate the risk of fraud and the manner in which it is managed by the organization and causes inefficiency in operation.

The rate of internal auditing is infrequently that increases the operational and financial risks of the administration.

The scope of the internal audit function did not yet go far to cover scope of internal audit and much time is devoted in performing regular activities. Broad scope of involvement with appropriate risk analysis, would improve audit effectiveness.

In terms of independences study was found internal auditors are not independent but independence is a cornerstone that enables unrestricted evaluation of organization activities and allows internal auditors to perform their role effectively.

Managements have not good perception about internal auditors in the administration. On the other hand top management support not only improves auditor efficiency but also discourage irregularity because internal audit is a key pillar of good governance.

The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes.

It noted that adequate punishments existed for violations of internal audit procedure. However, the application of the available punishments for violations of internal audit procedures left much to be desired; this decrease confidence among citizens.

#### **5.4. Recommendation**

This section provides some recommendations that are suggested as a solution to mitigate the operational problems of internal audit practice in yeka sub city administration public sector offices so that to improve internal audit effectiveness. Therefore, the researcher has tried to provide briefly the following recommendations:

The management it is recommendable to consider continue supporting internal audit work by employing adequate and competent internal auditors in addition more effort should be directed at regular training of the staff of internal audit departments is necessary to sharpen their skills of implementation of necessary procedures.

The scope of internal auditing it is advisable to involve beyond financial statements and financial-related auditing into areas such as purchasing, warehousing and distribution, human resources and customer service.

Periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

Management of Organizations it is recommendable motivate staff of internal audit departments to carefully implement internal audit procedures and internal audit departments should form a follow-up program on reported findings at appropriate intervals.

Organizations may therefore consider building capacity of the audit committees so as to improve internal audit independence.

Also recommended a proper investigation mechanism also to be in place in the administration and all suspected fraud incidents should first be internally investigated and if found correct, should be referred to law enforcing agency to fix criminal charges against the accused without discrimination for all levels.

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Appendix 1- Internal Auditors Survey Instrument

**St. MARRY UNIVERESTY**

**SCHOOL OF GRADUATE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

This is questionnaire designed to meet the objective of research project titled “Internal Audit Practice of government public sectors” for partial fulfillment of MSC in Accounting and Finance from St. Marry University.

Dear respondent, I would like to assure you that your response will only be used for the intended purpose and remains confidential. Your honest and thoughtful response is valuable.

Thank you in advance for your support and participation

**Instruction:** following questions and statements is prepared as questionnaire for this research please indicate your answer by ticking (✓)the appropriate one from the options.

**Part one: General information**

i) Sex/Gender/

Male (\_\_\_\_) Female (\_\_\_\_)

ii) Age (in year) :

20 to 29 (\_\_\_\_) 30 to 39 (\_\_\_\_) 40 to 49(\_\_\_\_) 50 to 59(\_\_\_\_) above 60 (\_\_\_\_)

iii) Your field of study:

Accounting (\_\_\_\_) Management (\_\_\_\_) Economics (\_\_\_\_)

Other specify\_\_\_\_\_

iv) Level of education:

TVET certificate (\_\_\_\_) Diploma (\_\_\_\_) Bachelor's Degree (\_\_\_\_)

Master's Degree (\_\_\_\_) others specify\_\_\_\_\_

v) Current position in your office/sector\_\_\_\_\_

vi) Work experience as an internal auditor year(s)

Less than 2 years (\_\_\_\_)Between 4-6 years (\_\_\_\_) Between 7-11 years (\_\_\_\_)

Between 11-20 years (\_\_\_\_)> 20 years (\_\_\_\_)

Instruction: The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) the appropriate scale (point) that indicates your opinion in table below. The values of scales are SA= Strongly Agree, A= Agree, N= Neutral, DA= Disagree, SD= Strongly Disagree.

**Part Two: Examining the Internal Audit Practice**

<b>A. Quality of internal audit</b>	SA	A	N	DA	SD
1. There is a complete internal audit manual to guide internal audit work.					
2. Internal audit department has enough staff					
3. Internal auditor in your organization has appropriate educational background					
4. Internal auditors possess sufficient experience to understand the organizations systems.					
5. Internal audit has policies for training of internal audit staff.					
6. Internal auditors undertake continuous professional development activities.					
<b>B. To examine time of audit</b>					
1. You audit the organization frequently?					
2. How acceptable was the timing of the audit fact-finding?					
3. How suitable was the duration of audit?					
4. How tolerable were you with the time it took for internal audit to issue an agreed audit report?					
<b>C. To investigate the independency of the auditors</b>					
1. Is internal auditing's position in your organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence?					
2. Internal auditors have full access to records and information they need in conducting audits?					
3. Do you think internal audit is free from intervention in performing its duties?					

5. Internal auditors feel free to include any audit findings in their audit reports?					
<b>D. To examine the implementation of internal auditor recommendation</b>					
1. Internal audit function provides an overall opinion to the activity of the organization?					
2. Is the Management takes timely corrective action based on internal audit recommendations?					
3. Accountant or manager implement internal audit recommendation?					
4. Do the internal auditors follow up implementation of corrective actions relating to audit findings?					
<b>E. To assess the available punishments for violations of internal audit procedures effectively applied.</b>					
1. Staff of internal audit department are motivated to implement the necessary procedures?					
2. They are punishments for violations of internal audit procedures in the office /sector?					
3. Punishments applied for violations of internal audit procedures at different levels are adequate?					
4. Punishments are applied when violations are noticed?					
<b>F. To examine the management perception about the internal audit</b>					
1. The office/sector has enough awareness and good perception about internal auditing roles?					
2. The office/sector considers internal auditing practices as a value adding activity and I work smoothly & regularly with the management?					
3. The office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function?					

4. The position/status of internal audit is clearly recognized by the management in the office/sector?					
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**G. Scope of internal audit work**

1. Which of the following represent the scope of work for internal audit in your organization?  
 (Please mark each boxes as much as it is applicable)

- (a) Verification of financial transaction (Financial audit).....
- (b) Assessment of internal control.....
- (c) Operational audit.....
- (d) Compliance audit.....
- (e) Fraud investigation.....
- (f) Information system audit.....

## Appendix 2- INTERVIEW QUESTIONS

1. Internal auditors undertake continuous professional development activities
2. Is internal audit department in your organization is large enough to successfully carry out its duties?
3. To what extent management and other organs support, understand the role of internal audit function?
4. To what extent internal audit independency applies to perform their job?
5. Punishments applied for violations of internal audit procedures at different levels are adequate?
6. To what extent internal audit scope in your office is performing
7. The frequencies of audits are satisfactory.