



**ST. MARY'S UNIVERSITY  
FACULTY OF BUSINESS**

**AN ASSESSMENT OF INTERNAL AUDIT  
CONTROL OF ETHIOPIAN ROADS  
AUTHORITY**

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**JUNE 2014  
SMU  
ADDIS ABABA**

**AN ASSESSMENT OF INTERNAL AUDIT CONTROL OF  
ETHIOPIAN ROADS AUTHORITY**

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SUBMITTED TO THE DEPARTMENT OF ACCOUNTING**

**BUSINESS FACULTY  
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THE DEGREE OF BACHELOR OF ARTS IN ACCOUNTING**

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## **ACRONYMS**

ERA =	Ethiopian Roads Authority
ETCA =	Ethiopian Transport Construction Authority
FASB =	Financial Accounting Standard Board
CPA =	Certified Public Accountant
SEC =	Security Exchange Commission
SAS =	Statement on Auditing Standards
GAAP =	Generally Accepted Accounting Principle

# CHAPTER ONE

## 1.1. INTRODUCTION

### 1.1.1. Background of the Study

Different changes have influenced the auditing profession in recent years' technology advancement and regulatory bodies have caused the auditing policy to re-examine its purpose and methodology. (David N. Ricchuite 1998)

Internal audit is defined as "an independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and evaluating adequacy and effectiveness of controls. (Johannes Kinfu and Engida Bayou, 2009 P. 51)

The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. (Ethiopian management training Directorate year of publication not found) At the level of the 21 century a new function of Auditing has emerged. Internal auditing is an independent objective assurance and consulting activity designed to as value and by bringing in a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal auditor always supports the management by assessing the problems in the internal control system in place and the operation of the company are carried out effectively and efficiently. Nevertheless, internal auditors are expensed to review the reliability and integrity of financial information. (DP Jain 1993)

Ethiopian Roads Authority's primary function is to maintain the existing road network through the districts as its corporate responsibility. The

maintenance of the entire main road network is carried out by ten maintenance districts which are conveniently located at various regions throughout the country. (ERA Golden Jubilee Magazine 2001)

The role of internal audit function has been important to this organization and given due consideration by the management; this is evident in the fact that the company has audit department. This department's responsibility is assessing the overall financial operation of the organization. (From the answer of employees)

### **1.1.2. Background of the Organization**

Ethiopian Roads Authority has been established in 1978 by proclamation No. 33/1978 under minister of transport and communication. The establishment of Ethiopian Road Authority included the rural roads department in addition to the high way department and other departments and divisions the purpose was to costume rehabilitate and maintain rural roads in 1980 ERA was reformed as Ethiopian transport construction authority (ETC) by proclamation No. 189/1980 with increased responsibility that includes construction of air ports, rail ways and municipal roads.

In 1990 ETCA was changed to ERA with limited responsibility for roads construction and formally accountable to the ministry of construction under the proclamation No. 261/1990 the powers and duties of ERA included contract administration and supervision in addition to the maintenance of the roads.

To cope-up with the existing situation ERA was again re-established by proclamation No. 80/1997 with objective of developing administration highway, to ensure the standard of road construction and to create proper condition the standard on which the road network is cardinally promoted. (broacher of ERA)

## **1.2. Statement of the Problem**

By observing from the other research problem, from day to day observation and different reports in an organization setting the control department day to day activities have mostly been confined to a review of compliance with rules, regulations, policies and procedures; other internal audit functions like ensuring reliability of financial reporting, reviewing economy, efficiency and effectiveness of operations and review of the adequacy of internal control system seem of largely been overlooked. (Zinash and Etalem, 2009)

The problems observed in ERA are there is a problem on the collection of data and relevant document on the needed time. There is also lack of cooperation between the audit department and the audited sections. The other problem there is a delay on the timely reporting of financial documents from the districts. There is also lack of experience and continuous training opportunity for employees. Therefore the above problems have influence on the internal control of the organization.

### **1.2.1. Research Questions**

As per this study the student researchers tried to assess and analyze data findings about problem area of internal audit control of Ethiopian Roads Authority by raising the following questions.

1. Does the internal audit staff review the internal control system of the authority properly?
2. What control methods are used to prevent fraud and error occurrence?
3. What challenges are observed in the audit practice and what measures are taken to prevent this?

## **1.3. Objective of the Study**

### **1.3.1. General Objectives**

The general objective of the study is primarily intended to assess the internal audit control of Ethiopian Roads Authority.

### **1.3.2. Specific Objectives**

The study has the following specific objectives

- Evaluate the benefit of internal audit to the organization.
- Identify problem observed in the audit process.
- Measuring the degree of independence of internal auditor from the task they are reviewing.
- Evaluating and observing what changes appear due to the reviewing of the internal control.
- Explaining the limitation of internal audit in the organization.

## **1.4. Research Methodology and Design**

This study is basically designed to evaluate the internal audit control system of Ethiopian Roads Authority specifically. This section discusses the methods and techniques used by the student researchers in conducting this study. Here the research design, types of data to be collected, method of data collection, population size and sampling techniques and data analysis method are discussed.

### **1.4.1. Research Design**

A descriptive study was used for employees with an assumption that it can help to generate adequate information about the major challenges of internal audit of Ethiopian Roads Authority. Descriptive research was used in the study to describe the "Who", "What", "When" and "How" of the topic.

## **1.4.2. Types of Data to be collected**

### **1.4.2.1. Primary Data**

The researchers collected primary data through questionnaires and interviews from Ethiopian roads authority audit department staff; a total of twenty auditors and accountants on the audit staff.

### **1.4.3. Method of Data Collection**

We used questionnaire and interview methods of data collection for our research.

### **1.4.4. Population Size and Sampling Techniques**

The organization has internal audit department which is responsible for assessing the operation of the organization. For this study we selected twenty auditors from this department. The reason is because the audit staff employees are small in number and it is easy to manage. Therefore, census was used to select the sample to undertake this research.

### **1.4.5. Data Analysis Method**

The data collected from the respondents was analyzed by quantitative data analysis method or percentage method was used by using descriptive research. . Descriptive research was used in the study to describe the "Who", "What", "When" and "How" of the topic.

## **1.5. Significance of the Study**

This study is useful in bringing into the light the strong and weak points in internal audit control of the organization. In addition the student researchers believe that the study might be helpful to the reader to have practical understanding of internal audit control in Ethiopian context and make further studies on this field.

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

### **1.6.1. Scope of the Study**

The study is concerned with internal auditing activities of Ethiopian Roads Authority. The time period covered by the study is from January to June 2014.

### **1.6.2. Limitation of the Study**

In conducting this study the student researchers faced some limitation, Firstly shortage of finance, time and sufficient information. There is also lack of experience in conducting this study.

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

This research paper contains four chapters: - Chapter One presents Introductory Material which includes background of the study, background of the organization, statement of the problem, objectives of the study, significance, data methodology, scope and limitation of the study. Chapter two discusses the related literature, chapter three describes evaluation of internal audit control and analysis part of the study, chapter four discusses the conclusion and recommendation of the study.

# CHAPTER TWO

## 2. LITERATURE REVIEW

### 2.1. Definition of Auditing

Auditing means the screening of accounts, books and the relative documentary evidence by an independent qualified person in order to ascertain the accuracy of the figures appearing there in (R.G. Saxena, 2002 page 5).

An Audit is defined as ‘an independent examination of, and expression of opinion and the financial statements of an enterprise by actually appointed auditor in pursuance of a relevant statutory or professional obligation” (Jofannes Kinfu & Engida Bayou, 2009, page 5).

Auditing should be done by competent and independent person. Auditing enable the auditors to express opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. This framework (criteria) might be generally accepted accounting principles (GAAP), or the national standards of a particular country.

### 2.2. Historical Evolution and Development of Internal Audit

“The widening gap between management and action has made it necessary to develop a series of controls by means of which the business may be administered efficiently. The internal auditor perfects and completes each of these activities by providing on the scene appraisal of each form of control. There is no known substitute for this activity”, (Walsh, 1963).

The historical development of internal auditing is closely tied with the advancement in internal accounting and reporting mechanisms for better management decision making.

This gave way to the growth and development of management accounting. Traditional the need for internal auditing was based on internal need basis and mostly arising out of need to detect fraud /irregularities and to verify suspicion. To a certain extent, it is also true today, though there are attempts to make internal auditing more of formal modern management requisite.

More recently, however, especially since the 50's and 60's in particular with the development of management theory and management controls (management accounting, the importance and scope of internal auditing has been gaining momentum and not few literature is accumulating on its development now.

Internal auditing thus came to be either financial or non financial (operational) in nature, pre or post audit partial or complete audit, investigation or spot check. Whatever its scope of activity, it was a "service to management" on a continuous bases and as such the scope and extent of its function was and is determined by management. The critical importance and relevance of internal auditing to business as well as the raison d'être for the establishment of the Institute of Internal Auditors in the USA is visible from the following visionary remarks by two of the ITA members.

Necessity created internal auditing and is a making it an integral part of modern business. No large business can escape it. If they don't have it now, they will have it sooner or later, and, if events keep developing as

they do at present, they will have to have it sooner", (Arthur E. Hald 1944).

"...although the roots of internal audit are in accountancy, its key purpose lies in the area of management control. It comprises a complete intra-company financial and operational review." (Robert B. Witt. 1999)

Today many studies indicate that the attitudes of has a lot to do with delineating the responsibility and authority of internal auditor, and the place in the organization hierarchy. In all this it must be remembered that the internal auditor is an employee of the organization, and as such cannot rise above the organizational sphere of influence, (Johannes Kinfu and Engida Bayou, 2009 page 51-52).

### **2.3 Definition and Objective of Internal Auditing**

According to the Institutes of Internal Auditors, Internal Audit is defined as "an independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and evaluating adequacy and effectiveness of controls, (Johannes Kinfu and Engida Bayon, 2009 page 51).

Internal Audit is also defined as "An independent appraisal function established by the management of an organization for the review of the internal control system as a service to

the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic efficient and effective use of resources. (Millichamp 1996 page 492). The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal audit

furnishes them with analysis, appraisal, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost, (Johannes Kinfu and Engida Bayou, 2009 page 51).

It also has the following General Objectives

- 1) Evaluating the reliability, adequacy and effectiveness of accounting principles and administrative controls
- 2) Ensures that the company's internal control result in proper and accurate recording of transactions and proper safeguarding of assets.
- 3) Determine whether it complies with laws and regulations and adheres to established policies and whether management is taking appropriate steps to address control deficiencies.
- 4) Internal auditors are increasingly responsible for providing for constructive business advices on adding new products or policies, procedures practice and revise existing ones, (Kamal Gupta, 1996).

## **2.4 Functions of Internal Auditing**

The internal auditing function includes verification, evaluation and compliance of operations. Among others, the following are specifiable.

- Review and appraise internal control procedure
- Ascertain effectiveness and efficiency of operations.
- Verify compliance to established policies, procedures and plans
- Ascertain the extent to which company assets accounted for and safeguarded from loses of any kind.

- Ascertain reliability data and documents.
- Evaluate quality of performance in carrying out assigned responsibilities.
- Recommend improvement in better management controls
- The internal Auditor can perform the work through either functional approach, operational approach or financial approach.  
(Johannes Kinfu and Engida Bayou)

## 2.5 Types of Auditors

The most known types of auditors are

- 1) Independent Auditors (External Auditors)
- 2) Internal Auditors
- 3) Government Auditors

**1) Independent Auditors (External Auditors):** Independent Auditors have no connection to the firm as an owner or employee/manager. The basic task of independent auditor is to confirm the owners that the employees are correctly reporting on their financial position and performance.

**2) Internal Auditor:** An internal auditor is paid salary as employee on the organization that is being audited. He/she is responsible to appraise and investigate the performance of unit and/or units within the organization and give recommendation to top management.

**3) Government Auditor:** The government auditor is paid salary by the government. He/she is responsible to the legislature or executive

### 2.5.1. Internal Auditing and External Auditing

There are similarities as well as differences between internal auditing and external auditing. The similarities could be in terms of scope, and

functions, tools and procedures. The differences lie mainly in selection and employment, remuneration, qualification and independence.

There are arguments that propagate that if there is external auditing why is there a need for internal auditing or vice versa. Would not there be duplication of efforts and /or competition at work?

However, an in depth understanding of the objectives and purposes of internal and external auditing can show that they should be rather complementary and not competitive. For if the internal auditing function is strong and wide, and performed by qualified persons then the results of the operation of organization can be reliable, which in turn assists in decreasing the scope of audit work by external auditors, and thus reduce the cost of external and internal auditor is quite distinct and cannot be a substitute for each other's responsibility. In addition, it must be remembered that external auditor is statutory requirement, while internal auditor is internal management governance mandate. (Millichamp, 1996)

### **2.5.2. External and Internal auditors compared and contrasted**

#### **Common interest**

- a) An effective system of internal control
- b) Continuous effective operation of such system
- c) Adequate management information flow
- d) Asset safeguarding
- e) Adequate accounting system. (for example to comply with the company's act. 1985)
- f) Ensuring compliance with statutory and regulatory requirements.

(Millichamp 1996, page 495)

## Differences

- a) **Scope**- The extent of the work undertaken. Internal audit work is determined by management but the internal auditor's work is laid down by statute.
- b) **Approach**- The internal auditor may have a number of aims in his work including an appraisal of the efficiency of the internal control system and the management information system.  
The external auditor is interested primarily in the truth and fairness of the accounts.
- c) **Responsibility**- The internal auditor is answerable only to management. The external auditor is responsible to share holders and arguably to a wider public. Both are of course answerable to their consciences and the ethical conceptions of their profession bodies. (Millichamp 1996, Page 495)

### Areas of Work Overlap

This can apply in the following areas

- a) Examination of the system of internal control
- b) Examination of the accounting records and supporting documents
- c) Verification of asset and liabilities
- d) Observation, enquiry and the making of statistical and accounting ratio measurements. (Millichamp 1996 page 495)

### 2.5.3. Measuring the Internal Audit Function

Internal Audit Functions are primarily evaluated on qualitative and quantitative measures.

- **Qualitative Measures:** base on the quality of counsel and information provided to the top management and the audit committee. Where there is the audit committee. In addition to this

feedback collected from survey questionnaire sent to key managers after each audit project can also help measure the quality of the service provided. The questionnaire is expected to cover dimension such as professionalism, quality of counsel, timeliness or output and quality of status updates. (Johannes Kinfu and Engida Bayou)

**Quantitative measure:** are used to measure the function level of execution. Key measures include plan completion, report issuance issue closure, staff qualifications, staff utilization rate and staffing level.

#### **2.5.4. Internal Audit Report**

The end product of any audit work culminates in writing of an audit report but unlike the external auditor's report the internal audit report is not standardized short form in its content. Consequently, the audit report of internal auditor requires a lot of imagination creativity with communicative ability in its writing. The audit report should basically contain the following;

- Detail purpose and scope of audit
- Description of tools and procedures of audit
- Findings, suggestions, and opinions and
- Recommendations

It is important that verbosity, negative criticism be avoided while cooperation and constructive suggestions emphasized. (Johannes Kinfu and Engida Bayou)

#### **2.6. Internal Control**

Internal control is a process affected by an entity's board of directors, management and other personnel that is assigned to provide reasonable

assurance regarding the achievement of objectives in the following categories

- 1) Effectiveness and efficiency of operations
- 2) Reliability of financial reporting and
- 3) Compliance with applicable laws and regulations.

Alternative definition by AICPA (American institute of Certifications of Public Accountants) as: Internal control referees to all coordinate methods and measures within an organizations or accounting data, promote operational efficiency and encourage adherence to prescribed managerial policy.

Overall internal controls are also defined as operational checks and balance that that prevents loss due to fraud, waste, abuse, and management of resources. The resources include; personnel, information and capital.

### **Purposes and Objectives**

The purpose of internal control can be explained into two aspects.

- a) The management (client) concern and
  - b) The auditor concern
- a) The client concern: the reason an organization establishes a system of internal control is to attain objectives (goals). Generally management has six purposes in getting good system of internal control. These are to:
- i. Achieve reliability of accounting records
  - ii. Safeguard assets
  - iii. Increase profitability
  - iv. Prevent and defeat frauds and errors
  - v. Prepare financial statements timely

- vi. Discharge laws, rules and regulations
- b) The auditor concern: The generally accepted auditing standard field work standards, number (3) three states that a sufficient understanding of internal control is to be obtained to plan the audit and determine the nature, timing and extent of tests to be performed. Thus the primary purpose of studying and evaluating of internal control system by external auditors is to determine the amount of audit work. It is assumed that good internal control provides more reliable financial data and statements.

The objectives of internal control include the following:

- i. Control operations:- to ensure efficiency and effectiveness
- ii. Control financial reports: to ensure the preparation of reliable financial statements
- iii. Control compliance:- to ensure compliance of laws and regulations

## **2.7 Essential elements of Effective Internal Control**

The essential elements are components of strong internal control. They are used to evaluate the strengths and weaknesses of internal control system.

Competent, trustworthy, personnel who lines of authority and responsibility

The most important elements of any internal control is personnel. If the employers are competent (well trained) and trustworthy (Trust) some of other elements can be absent and reliable financial information's will result. Specific responsibility for performance of a

given duties must be assigned to specific individuals. Organizational Structure defines how authority and responsibility are delegated and

monitored. It provides a framework for planning, executing, and monitoring operations. (Wittington and Pany; Page, 193)

### **Segregation of Duties**

It is important for an organization to segregate (separate) the authorization of transaction, recording of transactions, and custody of the related assets. Independent performance of each of these functions reduces the opportunity for any one person to in a position both to perpetrate and to conceal errors on irregular in the normal course of his or her duties. Example: first if an employer can authorize the sale of marketable securities and has access to the stock certificates, the assets can be misappropriated. Second if an employer receives payment from customers on account and has access to the account receivable, subsidiary ledger, it is possible for that employer to misappropriate the cash and cover the shortage in the accounting records.

There are four guidelines for segregation of duties to prevent both internal and un internal errors and frauds.

- a) Separation of custody of assets from accounting
- b) Separation of the authorization of transaction from the custody of related assets
- c) Separation of duties within the accounting section functions
- d) Separation of operational responsibilities from record

(Wittington and Pany; Page, 193)

### **2.7.1. Means of Achieving Internal Control**

Purposes of financial statement audits, the policies and procedures used by an entity to achieve internal control are referred to as the entity's internal control structure.

Internal Control Structures vary significantly from one organization to the next, depending on such factors as the size, nature of operations and

objectives of the organization for which the structure was designed. Yet certain features are essential for

Satisfactory internal control in almost any large scale organizations; the internal control structures of all large organization include five components:

- 1) The control environment
- 2) Risk assessment
- 3) The accounting information and communication system
- 4) Control activities and
- 5) Monitoring

The control environment sets the tone of an organization by influencing the control consciousness of people. It may be views as the foundation for the other components of internal control. Control environment include integrity and ethical values, commitment to competence; board of directors or audit committee, human resource policies and practices, management philosophy and operating style, organizational structure and assignment of authority and responsibility. (Wittington and Pany; Page, 193)

### **Integrity and ethical values**

The effectiveness of internal control structure depends directly upon the integrity and ethical values of personnel who are responsible for creating, administering and monitoring that structure. Management should establish behavioral and ethical standards that discourage employees from engaging in acts that would be considered dishonest, unethical or illegal. To be effective these standards must be effectively communicated by appropriate means including official policies, codes of conduct and by example. Another way to reduce the incidence of improper behavior is to remove or reduce the temptations and incentives to engage in such behavior.

Example: fraudulent financial reporting has often resulted from situations in which individuals were placed under undue pressure to meet unrealistic performance goals. (Wittington and Pany; Page, 194)

### **Commitment to Competence**

To be considered competent, employees must possess the skills and knowledge essential to the performance of their jobs. If employees are lacking in skills or knowledge, they may be ineffective in performing their assigned duties. This is especially critical when the employees are involved in applying internal control policies and procedures. Ideally, management should be committed to hiring employees with appropriate levels of education and experience, and providing them with adequate supervision and training. (Wittington and Pany; Page, 194)

### **Board of Directors or audit Committee**

The control environment of an organization is significantly influenced by the effectiveness of its board of directors or audit committee. Factors that bear on the effectiveness of the board or audit committee include the extent of its independence from management, the experience and stature of its members, the extent to which it raises pursues difficult questions with management and its interaction with internal and external auditors. (Wittington and Pany; Page, 195)

### **Management Philosophy and Operating Style**

Managements differ in both their philosophies toward financial reporting and their attitudes toward taking business risks. Some management is extremely aggressive in financial reporting and place great emphasis on meeting or exceeding earnings projections. They may be willing to undertake activities of high risk with the prospect of high return. Other management teams are extremely conservative and risk averse. These

differing philosophies and operating styles may have an impact on the overall reliability of the financial statements.

Management's philosophy and operating style also is reflected in the way the organization is managed. Internal Control in informal organization is often implemented by face to face contact between employees and management. A more formal organization will establish written policies, performance reports and exception reports to control its various activities. (Wittington and Pany; Page, 195)

### **Organizational Structure**

Another control environment factor is the entity's organizational structure. A well designed organizational structure provides a basis for planning, directing and controlling operations. It divides authority, responsibilities and duties among members of the organization by dealing with such issues as centralized versus decentralized decision making and appropriate segregation of duties among the various departments. When decentralized style is used procedures to monitor the decision making of many managers involved became equally important, (Whittington and Pony, page 193, 194,195).

#### **2.7.2 Limitations of Internal Control**

An internal control system should be designed and operated to provide reasonable assurance. That is an entity's cost of internal control system should not exceed the benefits that are expected to be delivered. The necessity of balancing the cost of internal control with the related benefits required considerable estimation and judgment on the part of management.

Therefore the idea of reasonable assurance arises from two concepts: cost-benefit and the inherent weakness: The cost includes-paying

employees for implementing the system, constructing and acquiring facilities (safes, stoves) printing of vouchers, forms, etc. The benefits include prevention of potential losses.

The inherent limitation includes management override of internal control, personnel errors or mistakes, and collusion.

- i. Management override of internal control- an entity's controls may be overridden by management
- ii. Personnel errors or mistakes- The internal control system is only as effective as the personnel who implement and perform the controls
- iii. Collusion- The effectiveness of segregation of duties lies in the individuals performing only their assigned tasks or in the performance of one person being checked by another.

## **2.8. Common Audit Problems**

Statement below highlights the top 10 audit deficiencies the Sec claimed. The most common problem –alleged in 80% of the cases –was the auditor's failure to gather sufficient evidence. In some instances, this failure was pervasive throughout the engagement; in other instances the allegations were more specific. For example, many of the cases involved inadequate evidences in the areas of asset valuation. The auditor did not obtain evidence to support key assumptions

- Asset ownership. The auditor did not obtain evidence to indicate the company owned certain assets.
- Management representations. The auditor did not corroborate management response to inquiries.

Some cases involve the auditor's failure to examine relevant supporting documents (for example, examining a draft instead of final, sales contract) or failure to perform steps listed in the audit program. Overall

this failure contributed to management's success in overstating assets, the most common fraud technique.

**Due Professional Care:** The SEC claimed that auditor's failed to exercise due professional care in 71 % of the enforcement cases and to maintain an attitude of professional skepticism in 60% of the cases. In general, this failure on the auditor's part can be found throughout the sanctioned audit engagements.

**Applying GAAP:** In almost half of the cases, the SEC said the auditors failed to apply or incorrectly applied GAAP pronouncements, many of the GAAP violations related to unusual assets with unique accounting valuation issues (often describes in lower level of the GAAP hierarchy).

**Audit Program Design:** Planning the audit engagements is crucial to its success. Deficiencies in audit planning were cited in 44% of the cases. Specifically, the auditor failed to

- Properly assess inherent risk and adjust the audit program accordingly
- Recognize the heightened risk associated with non-routine transactions
- Prepare an audit program (or inappropriately reused one from prior years)

**Audit Evidence:** Another common deficiency the SEC alleged, present in 40% of cases, involved overreliance on inquiry as a form of audit evidence, the agency cited auditors for failing to corroborate management's explanations or to challenge explanations that were inconsistent or refuted by other evidence the auditor had already gathered.

**Auditor's Report [GAAP hierarchy]:** Implementing this recommendation might require the firm to develop or purchase guidance on implementing GAAP's more obscure aspects.

**Audit Planning:** Auditors can best remedy audit planning deficiency by promoting more extensive and timely involvement by partners-both engagement and concurring –managers in planning the engagement. Such involvement increases the likelihood the auditor will correctly assess risks (both inherent and control) and modify the firm’s audit approach (nature, extent and timing of tests) as appropriate. Involving the audit team partner and manager during the planning phase will help ensure that audit plans emphasize careful scrutiny non routine transactions, particularly those recorded near year end – when management sometimes records inappropriate transactions.

**Management Estimates:** At a minimum, auditor need to carefully review the underlying data, assumptions and methods a company’s management used to develop financial statement estimates. An adequate review hinges on auditors with an appropriate level of both general and industry specific expertise being involved. In case of particularly complex or unusual estimates, specialists may be needed.

**Confirming Accounts Receivable:** CPA firms need to ensure their audit teams are effectively handling the confirmation process; firms should remind team members to

- Confirm accounts receivable (unless conditions under SAS no 67, The Confirmation Process suggest confirmations would not be effective).
- Confirm an adequate portion of the receivables.
- Maintain control of the confirmation process.
- Employ alternative procedures when confirmations are not returned or exceptions are exist.

**Related Party Transactions:** To increase the likelihood of detecting the related party transactions, the auditor should:

- Prepare a list of related parties, continually updating it throughout the engagement and distribute it to all audit team members.
- Make inquiries of management regarding the existence of related party transactions.
- Confirm with counter party the nature and existence of material or unusual client transactions, including whether a relationship exists between the counter party and the client or its management.

Once the auditor uncovers related party transactions, he or she has two additional responsibilities: 1) closely examine the transaction to make sure that it occurred and is correctly valued and 2) ensure the GAAP requirements (see FASB Statement no. 57, Related Party Disclosures) are satisfied.

Failure to obtain adequate evidence relating to the evaluation of significant management estimates was present in 36% of the cases. The SEC claimed auditors failed to gather corroborating evidence and to challenge management's assumptions and methods underlying the development of those estimates.

**Accounts Receivable:** The SEC cited numerous deficiencies in confirming accounts receivable (present in 29% of the cases). These deficiencies included

- Failure to confirm enough receivables.
- Failure to perform alternative procedures when confirmations were not returned or were returned with material exceptions.
- Problems with sending and receiving confirmation requests (for example failing to corroborate confirmations received via fax or allowing the client to mail confirmation requests).

**Related Parties:** Another common problem (in 27% of the cases) was the auditor's failure to recognize or disclose transactions with related parties. The auditor was either unaware of the related party or appeared to cooperate in the client's decision to conceal a transaction with this party. Such transactions often resulted in inflated asset values.

**Internal controls:** (In 24% of the cases the SEC alleged the auditors over relied on internal controls. It said that they typically had failed to expand testing in light of identified weaknesses in the client's internal control. In other cases, the auditors seemed to implicitly assume the presence of a baseline level of internal controls even though the auditor documented that the client essentially had no controls in place.

## 2.9 Auditor Solutions

Based on the deficiencies the SEC found, there are a number of areas that warrant specific attention from CPA firms that do audits and individual auditors themselves.

**Audit issues:** The three most common deficiencies all reflect engagement management problems affecting many areas of the audit: a failure to gather sufficient, competent evidence lack of due care and lack of professional skepticism. In many cases, the best remedy for such problems is for auditors to develop a properly designed and executed quality control system. Such a system creates a culture that encourages all members of the audit team to maintain a baseline acceptable level of performance, regardless of perceived day-to-day engagement and firm pressures.

CPA firms should evaluate their own quality control system to ensure policies and procedures emphasize the importance of proper audit planning, supervision and review, including timely involvement by engagement and concurring partners. Additionally, firms should reexamine the existing quality control procedures to make sure they are detailed enough to assure firm leaders that audit teams are examining appropriate documentation (final documentation, not drafts) and that teams complete all audit program steps. Those procedures should emphasize that auditors should corroborate management

representations with additional evidence and not overuse management inquiry as a form of audit evidence.

**The Firm's "tone at the top":** Another means of reducing office wide audit problems is to address the attitudes of the firm's highest levels. Here are some values a CPA firm's managing partners should clearly communicate to their employees. Firms should:

- Define "client" to include not only management but also the entity's board of directors, audit committee, stockholders and the investing public to ensure the audit team considers all affected parties throughout the engagement.
- Signal to their audit teams that providing high quality audit services is a top priority and that the firm does not view such services as a commodity. A firm can do this by emphasizing the importance of audit quality in training programs and annual performance reviews.
- Encourage all personnel to maintain an attitude of professional skepticism that focuses on the importance of the auditor's role in protecting the public interest and maintaining strong capital markets. A firm can accomplish this by conducting periodic engagement wide team meetings to discuss concerns about management integrity issues and by highlighting for staff members the risk of not being skeptical.

**Performance Measurement and Compensation:** Audit firms can benefit from closely examining their performance measurement and compensation system. In many of the fraud cases, it appeared auditor simply chose not to pursue identified audit issues, perhaps fearing the time spent investigating those issues would hinder career advancement or result in penalties during salary and bonus reviews because they ran overtime budgets or missed client imposed deadlines.

A clear message should be part of all personnel decision (hiring, retention and promotion) that the firm values high quality audit services and that all other considerations –including time budgets, firm administration, development of non audit services and other practice development issues-are secondary. Firms also need to carefully evaluate whether fee and deadline pressures will have an impact on the audit teams ability to deliver high quality audit.

**GAAP violations:** CPA firms that perform audits can take a number of steps to reduce the incidence of GAAP violations among audit personnel, including:

- Requiring specific internal firm consultation with technical A&A partners or industry specialists when certain accounting issues arise.
- Expanding the coverage of technical accounting topics and industry specific requirements in firm sponsored training courses to ensure audit personnel understand the nuances of GAAP particularly those involving unique industry issues.
- Ensuring that firm personnel understand the provisions of SAS no. 69, the meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the independent reliance on the internal controls, In the SEC cases, auditors sometimes relied too much on internal controls by either failing to expand testing after discovering internal control weaknesses or assuming a baseline level internal control existed even in the absence of any controls testing. This finding has implications for firm policy and quality control procedures, which should explicitly note the prohibition in professional standards against placing any reliance on controls unless they have been adequately tested. In addition, firms should

more closely link internal control evaluations to substantive audit testing (the nature, timing and extent of such tests).

### **Better Audits, Less Fraud**

As financial and economic pressures tightens for corporate executives, it is more important than ever for auditors to develop sound fraud detection audit techniques. The audit deficiencies alleged by the SEC between 1987 and 1997 are, in our view, issues the profession and individual firms can effectively address. The recommendations included in this article may help firms reduce the chance of undetected material financial statement fraud as they strive to continually improve fraud risk assessment tools. The audit deficiencies the SEC identified also have important implications for standard setters as they seek to strengthen professional standards related to the auditor's fraud detection responsibilities, ([www.journalaccountancy.com](http://www.journalaccountancy.com)).

## **CHAPTER THREE**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **INTRODUCTION**

In the previous part different writers have tried to explain the concept of internal audit in different ways. The literature collected from various data sources was relevant to the study. This chapter is mainly concerned about analyzing and presenting data that is collected from questionnaire and interview. Financial audit and operational audit staffs of the internal audit service department of Ethiopian roads authority employees were subjects of the study.

A total of 20 questionnaires were distributed which is 100% of the total employees, out of these 15 were filled and returned completely making

the response rate of 75%. For this reason, the analysis and finding of the paper is based on the number of respondent of the questionnaire and interview conducted with the audit section managers and employees.

### 3.1 Characterize of the Respondents

**Table 3.1 Percentage of Male and Female respondents**

Number	Sex	Respondents	
		Frequency	Percentage
1	Male	14	70%
2	Female	6	30%
Total		20	100%

Source: Primary data

Table 3.1 above shows that among the respondents 6(30%) are found to be females and the rest 14(70%) are males. This indicates that most of the employees are male.

**Table 3.2 Age distribution of employee of Ethiopian Roads authority**

Number	Age	Respondents	
		Frequency	Percentage
1	18 - 25 yrs	-	-
2	25 - 35 yrs	5	25%
3	35 - 45 yrs	7	35%
4	45 - 55 yrs	8	40%
5		-	-
Total		20	100%

Source: Primary data

As shown on the above table 5(25%) of the respondents belong to the age group of 25-35 years old, respondents fall under the age group of 35-45 years is 7(35%), the rest age is 45-55 years which is 8(40%) of the respondents. From this fact we can see that most of the respondents fall under the age group 45-55 years which is more matured and can give more success and efficiency for the organization.

**Table 3.3 Educational qualification and work experience**

Number	Classification	Respondents	
		Frequency	Percentage
1	Educational qualification		
	i) Diploma	-	-
	ii) 1 <sup>st</sup> Degree	19	95%
	iii) 2 <sup>nd</sup> Degree and above	1	5%
	Total	20	100%
2	Work experience		
	iv) 2-5 yr	2	10%
	v) 5-10 yr	10	50%
	vi) Above 10 yr	8	40%
	Total	20	100%

Source: Primary data

As we see from Table 3.3 above most of the respondents are Degree holders which is 19(95%) of the total respondents. The remaining 1(5%) of the total respondents is 2<sup>nd</sup> Degree holder. This implies all respondents are well educationally qualified.

Table 3.3 also shows work experience of the employees which implies most of the employees work experience fall under the year 5-10 years that is 10(50%) of the respondents. The other respondents belong to above 10 years work experience which is 8(40%). The rest respondents fall under the year of service 2-5 years which is 2(10%) of respondents. This shows most of the employees are well experienced.

**Table 3.4 Internal auditors position in the organization**

Number	Age	Respondents	
		Frequency	Percentage
1	Director general	12	60%
2	Staff	8	40%
3	Consultant	-	-
4	Other	-	-
Total		20	100%

Source: Primary data

Table 3.4 above shows 8(40%) of the respondents says the internal auditors are positioned in the staff of the organization. The rest 12(60%) of the respondents replies the internal auditor is positioned in the director general offices. This implies the internal auditor is located in the director general office of the organization.

**Table 3.5 Scope of Internal Audit in the Organization**

Number	Age	Respondents	
		Frequency	Percentage
1	Financial activities	13	65%
2	Operational activities	3	15%
3	Strategic activities	1	5%
4	Regulatory compliance	3	15%
5	Other	-	-
	Total	20	100%

Source: Primary data

Table 3.5 shows 13(65%) of the respondents replies most of the internal audit task is related with financial activities. Some of the respondents relies 3(15%) of internal audit task is operational activity. The rest respondents belongs to strategic activities which is 1(5%) and regulatory compliance 3(15%). From this data we can see that the scope of internal audit in the organization is concentrated in financial activities, operational activities, strategic activities and regulatory compliance.

**Table 3.6 Appoints internal auditor**

Number	Age	Respondents	
		Frequency	Percentage
1	Administrators of the authority	18	90%
2	The head of internal audit department	2	10%
3	Other	-	-

	Total	20	100%
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Source: Primary data

Table 3-6 above shows that 18(90%) of the respondents replies administrators of the authority appoints internal auditors.

The remaining 2(10%) of the respondents responds head of internal audit department appoints internal auditors. This data indicates administrators of the authority appoint internal auditors of the organization.

**Table 3.7 Ascertaining the effectiveness of internal control**

Description	Response	Respondents	
		Frequency	Percentage
Do you make regular review of procedures to ascertain the effectiveness of internal control?	Yes	20	100%
	No	-	-
	Total	20	100%

Source: Primary of data

As shown in table 3.7 above 20(100%) of the respondents all responds the internal control of the authority is effective in controlling the company. This implies the internal control of the authority is effective and sufficient enough to control the authority.

**Table 3.8 Time of reviewing the internal control**

Description	Response	Respondents	
		Frequency	Percentage
If your answer is yes, how often do you review?	Weekly	-	-
	Monthly	-	-
	Quarterly	2	10%
	Semi-annually	9	45%
	Annually	9	45%
	Total	20	100%

Source: Primary of data

Table 3.8 above indicates that 2(10%) of the respondents replies that it is reviewed quarterly. The rest respondents replies it is reviewed semi-annually and annually with a percentage of 9(45%).

This implies that the authority investigates regular review of ascertaining the effectiveness of internal control semi annually and annually, because the authority is large it is not possible to review its internal control system within a short period of time.

**Table 3.9 Internal auditors are free from conflicting duties**

Description	Response	Respondents	
		Frequency	Percentage
Are internal auditors free from conflicting duties and able to investigate any area?	Yes	20	100%
	No	-	-
	Total	20	100%

Source: Primary data

As shown in table 3.9 above all of the respondents' replies they are free to investigate any area of the audit task. There are no conflicting duties that disable the audit process.

**Table 3.10 Test all transaction are authorized**

Description	Response	Respondents	
		Frequency	Percentage
Do you test that all transaction are authorized	Yes	2	10%
	No	18	90%
	Total	20	100%

Source: Primary data

Table 3.10 above shows 2(10%) of the respondents replies all the transaction are authorized. The period of authorization is semiannually and annually. But majority of the respondents which is 18(90%) of the total respondents replies all transaction are not authorized rather sample is taken from the total audit task and authorization is done from the sample. This implies that all transactions are not authorized in a regular time.

**Table 3.11 Major risks facing internal auditors**

Description	Response	Respondents	
		Frequency	Percentage
What are the major risk facing internal auditors	Lack of experience	7	35%
	lack of management respect	6	30%
	Lack of opportunity for professional development	7	35%

	Total	20	100%
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Source: Primary data

Table 3.11 above shows that among the respondents 7(35%) of the respondents replies there is lack of experience in the audit task. The other respondent which is 6(30%) responds there is lack of management respect in the audit work. The rest 35% of the respondents respond there is lack of opportunity for professional development and training. Therefore the problems observed in the audit task are lack of experience, lack of management respect and lack of opportunity for professional development and training.

**Table 3.12 Verify mathematical accuracy of general ledger position**

Description	Response	Respondents	
		Frequency	Percentage
Do you verify the mathematical accuracy of general ledger position?	Yes	17	85%
	No	3	15%
	Total	20	100%

Source: Primary data

As shown in table 3.12 most of the respondents which 17(85%) replies there is a good verification of the mathematical accuracy of general ledger position. The rest respondents which is 3(15%) respond there is no strong verification of mathematical accuracy of general ledger position. This implies that majority of the respondent replies there is a good verification of mathematical accuracy of general ledger position.

**Table 3.13 Time of verification**

Description	Response	Respondents	
		Frequency	Percentage
If your answer is yes, how often do you verify	Daily	-	-
	Weekly	-	-
	Monthly	-	-
	Semiannually	3	15%
	Annually	17	85%
	Total	20	100%

Source: Primary data

Table 3.13 above shows 3(15%) of the respondents replies the time of verification is done semiannually. The rest responds the time of verification is on a yearly basis which accounts 17(85%) of the total respondents. Therefore, the time of verification is on a yearly basis.

**Table 3.14 Examining proper maintenance of financial transactions**

Description	Response	Respondents	
		Frequency	Percentage
Does you staff examine the proper maintenance of records on all financial transactions?	Yes	15	75%
	No	5	25%
	Total	20	100%

Source: Primary data

As show in table 3.14 above 15(75%) of the respondents responds there a good examination of proper maintenance of records on financial

transactions of the authority. But all transaction are not viewed one by one rather sample is taken from the overall and it transactions. The rest respondents respond there is no examination of proper maintenance of records on financial transactions. This implies there is a good examination of proper maintenance of records on financial transaction of the authority in general.

**Table 3.15 Timing of examination of records on financial transaction**

Description	Response	Respondents	
		Frequency	Percentage
If your answer is yes, how often do you examine?	Daily	-	-
	Weekly	-	-
	Monthly	-	-
	Semi-annually	18	90%
	Annually	2	10%
	Total	20	100%

Source: Primary data

As indicated on the above table 3.15 most of the respondents which is 18(90%) replies the time of examination for proper maintenance of records is semi-annually. The rest 2(10%) of the respondents respond the time of examination for records is annually. This shows that the time of examination for proper maintenance of records of financial transaction is semi-annually. But all transaction are not observed one by one, only the samples are huge working with 23-30 billion birr of the over all budget and the number of staff are limited.

**Table 3.16 Safeguarding of asset and completeness of records**

Description	Response	Respondents	
		Frequency	Percentage
Do you audit the accuracy of calculations of all transaction that place in your organization?	Yes	3	15%
	No	17	85%
Total		20	100%
Do you report all material discrepancies?	Yes	18	90%
	No	2	10%
Total		20	100%
Do you follow up certification of irregularities?	Yes	19	95%
	No	1	5%
			100%

Source: Primary data

As show from table 3.16 above 17 (85%) of the respondents replies accuracy of all transactions calculations of the organization are not audited one by one because ERA is not profit making organization. The rest respondent replies accuracy of all transactions calculations are audited one by one. This indicates accuracy of all transactions calculation which took place in the organization is not audited one by one because of the above reason.

The other is 18(90%) of respondents respond materials discrepancies of the organization are reported during each auditing period. The remaining 2(10%) of the respondents replies material discrepancies are not audited. Therefore, material discrepancies are reported during the audit period.

Table 3.16 above also shows 19(95%) of the respondents responds there is a good follow up certification of irregularities. The rest 1(5%) replies there is no follow up certification of irregularities. This implies there is no follow up certification of irregularities.

**Table 3.17 Procedures intended to prevent found and error**

Description	Response	Respondents	
		Frequency	Percentage
Do you come up with new working procedures that are intended to prevent fraud and error?	Yes	-	-
	No	20	100%
	Total	20	100%

Source: Primary data

As we see from the above table 3.17 all of the respondents that is 20 (100%) responds there is no new working procedures that are intended to percent fraud and error. The existing procedures works good but some of the staff are not following the procedure that is the problem observed.

**Table 3.18 Adequacy and reasonableness of reports**

Description	Response	Respondents	
		Frequency	Percentage
Does the internal audit staff review the adequacy and reasonableness of the reports and statements generated by the accounting system?	Yes	18	90%
	No	2	10%
	Total	20	100%

Source: Primary data

Table 3.18 above shows 2(10%) of the respondents replies the internal audit staff review the adequacy and reasonableness of reports and statements generated by the accounting system. The rest respondents that is 18(90%) of them respond the internal audit staff review the adequacy and reasonableness of the reports and statements generated by the accounting system. This indicates majority of the respondents replies the internal audits staffs review the adequacy and reasonableness of the reports and statements generated by the accounting system.

**Table 3.19 Timing of checking the adequacy and reasonableness of reports**

Description	Response	Respondents	
		Frequently	Percentage
If your answer is yes, how often do you check?	Daily	-	-
	Weekly	-	-
	Monthly	1	5%
	Semiannually	2	10%
	Annually	17	85%
	Total	20	100%

Source: Primary data

Table 3.19 above shows that 85% of the respondent's replies the time of review is annually and 5% monthly and the other 10% is semi-annually respectively. According to the respondent's response majority of responses are done annually checking of adequacy and reasonableness of reports generated by the accounting system.

- What weakness and deficiencies of the internal audit have you observed with regards to review of the adequacy and effectiveness of internal control system?

The response explains about the weakness and a deficiency of the authority is there is a limitation of knowledge, skill and experience on the audit work. There is also a problem on the collection of data and relevant documents from different part of the audited section.

The other problem is there is lack of cooperation between different parts of the audit section. Lack of training and continuous development of professional skill is also observed.

The last deficiency is because the organization is huge there is a weakness for observing each transaction of the organization this may create a chance of fraud on the audit work.

### **Interview Responses of the Internal Audit Department**

This interview was conducted with the audit department manager. One of the standards of a good internal audit activity is designing a good quality of independence. When we observe ERA it has a good quality of independence.

The answers replied from the employees of internal audit department are summarized as follows.

### **Qualities of Independent**

The most serious finding of the internal audit activity is its independence and quality of independence for the organization.

The reports of the internal audit department are given to the director general then the director general delivers it to the managers so, this shows the independence of the internal audits is good. To sum up independence of internal audits is relevant to reach unbiased decision necessary to properly work and free to report its findings, appraisal and to correct them with in the organization. Internal audit service of ERA is effective in presentation, detection and correction of fraud and errors.

### **Adequate Prevention Controls and Detection Methods**

From our findings we observe that the internal audit department of the organizations is concentrated in corrective and detective method of controls. Preventive control method is given low attention compared to the above two methods. Measures are taken after the problem has occurred and corrective procedures are prepared for correction.

The weaknesses and deficiencies observe in the internal audit with regards to review the adequacy and effectiveness of internal control system?

The weakness and deficiencies observed in the internal audit with regards to review the adequacy and effectiveness of internal control system is there is a problem on the collection of data and relevant documents from different section of the audited parts.

The other problem is there is lack of cooperation between the audit department and the audited sections and lack of training for developing their skill and knowledge. The last limitation is because the organization is huge there is a problem of observing each part of the audited section. Therefore, the above listed problems are observed in the internal control system of the organization.

## **CHAPTER FOUR**

### **Findings, Conclusions and Recommendation**

#### **4.1. Findings**

The findings we get from questionnaire and interview shows the internal audit staff is operating well but some problems are observed in some part of the organization. Internal audit is a dynamic activity that requires developing and obtaining on efficient working internal control system. Internal audit works well when there is independence of the auditor which is free from conflict of the management and internal audit department.

#### **The other findings are as follows:**

- The internal audit department of the authority employees has good educational qualifications, which enable the employees to perform their work effectively and efficiently.
- All internal audit employees of the department are capable to compute their task with due professional care.
- The internal audit department of ERA is organized with experienced employees that enable the authority to full.
- The major risks facing internal auditor is lack of experience, lack of management respect, and lack of opportunity for professional development.
- Most of the internal audit department of ERA works effectively and efficiently as required.
- Most of the procedures intended to prevent fraud and error are working good but some staffs are not following it properly.

- The deficiencies observed are lack of cooperation between the audit department and the audited section, and lack of experience and continuous training opportunity is not given.
- The financial reports are not delivered to the audit department on the needed time gap.
- The audit department is free from management pressure to undertake its task.

## **4.2. Conclusions**

From the data analysis, interpretation and findings, the student researchers arrived at the following conclusions. The analysis of this study shows the senior management responds positively to the internal auditors' findings and recommendations. This implies the senior management and internal audit department has smooth relation. Therefore, this relationship creates good working conditions for the effectiveness, efficiency and success of the organization as whole.

The internal audit department employees have appropriate skill and knowledge with a good qualification of the audit task. In addition to this most of the employees are well experienced working more than six years and above.

Internal audit is in a good quality of independence to reach unbiased decision necessary to properly work the task and free to report its findings and recommendations internally.

ERA'S internal auditors have necessary educational qualification and the personnel have appropriate skill with good qualification and also all internal auditors have sufficient experience.

The existing controlling system of ERA is efficient and effective to perform all financial activities but the problem is some staffs have a problem of following the given procedures as needed.

Some times there is also a problem of not reporting audit reports on time which is reported from the districts.

ERA has weakness and deficiencies of internal audit with regards to ascertaining reliability and time lines of regulatory reporting because there is lack adequate information obtained from the audited section on the needed time and there is also lack of well organized documents on the needed time gap. Therefore the student researcher believes there is inadequate timely reporting.

The weakness and deficiencies observed in the internal audit with regards to review the adequacy and effectiveness of internal control system is there is a problem on the collection of data and relevant documents from different section of the audited parts.

The other problem is there is lack of cooperation between the audit department and the audited sections and lack of training for developing their skill and knowledge. This result shows there is some deficiency on internal control system of the organization.

### **4.3. Recommendations**

From the data analysis, findings conclusions the researchers arrived at the following recommendations

- The internal auditors should enhance their knowledge, skill and other professional competencies through continuing professional training and qualification to increase professional competency.
- To improve the timely reporting of the audit reports from the districts the organization have to install improved mechanism for collecting the audit reports on time.
- The senior management also should have to respond positively to the findings and recommendations of the internal auditors and routinely seeks internal audit assistance.
- The audit department and the audited section should have to work in cooperation for improving the organizations problems.

- The internal audit department should have to improve the collection of data and relevant documents to improve the effectiveness of the internal control system of the organization.
- The internal audit department should regularly receive managements request and advices for continuous improvement and change.

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# Appendices

## Appendix I

### St. Mary's University Business Faculty Department of Accounting

This questionnaire is designed and prepared by the student researchers at St. Mary's University in doing research paper in partial fulfillment of requirements of BA degree in accounting.

With this questionnaire the student researchers intend to assess internal audit control of Ethiopia road authority, especially at the head office internal audit service department. The research is prepared only for academic purposes.

Please answer the questions by making (√) or (X) either yes or no; write your answer for open end questions briefly.

#### 1) Personal data

Gender: Male  Female

Age: 18-25 years  35-45 years  above 55 years

25-35 years  45-55 years

Work experience in years \_\_\_\_\_

Level of education:

Diploma

1<sup>st</sup> Degree

2<sup>nd</sup> Degree and above

#### 2) Where is the internal auditor department positioned in the organization?

General Manager

Consultant

Staff

Other

#### 3) What is the scope of internal audit in the organization?

- Financial activities       Operational   
Strategic activities       Regulatory compliance   
Others

4) In your organization who appoints the internal audit?

Administrators of the authority

The head of internal audit department

Other

5) Are internal auditors free from conflicting duties and able to investigate any area?

Yes

No

If your answer is no, please write the reason below \_\_\_\_\_

---

6) Do you test that all transactions are authorized?

Yes

No

If your answer is yes, how often do you test?

Daily  Weekly  Monthly  Semiannually  Annually  If

your answer is no, please write the reason below \_\_\_\_\_

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7) What are the major risk facing internal auditors?

Lack of experience

Lack of management respect

Lack of opportunity for professional development

8) Do you verify the mathematical accuracy of general ledger position?

Yes

No

If your answer is yes, how often do you verify?

Daily  Weekly  Monthly  Semiannually  Annually

9) Do you staff examine the proper maintenance of records on all financial transactions?

Yes

No

If your answer is yes, how often do you examine?

Daily  Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason \_\_\_\_\_

10) So you audit the accuracy of calculations of all transaction that place in your organization?

11) Do you report all material discrepancies?

Yes

No

If your answer is yes, how often do you report?

Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason below \_\_\_\_\_

12) Do you assist in special investigation and sample checking activities of complex transactions?

Yes

No

If your answer is yes, how often do you assist?

Daily  Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason below \_\_\_\_\_

13) So you follow up certification of irregularities?

Yes

No

If your answer is yes, how often do you follow up?

Daily  Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason below \_\_\_\_\_

14) Do you come up with new working procedures that are intended to prevent fraud and error?

Yes

No

Of your answer is No, what weakness and deficiencies of internal audit have you observe with regard to prevention, detection and correction of fraud and error? \_\_\_\_\_  
\_\_\_\_\_

15) Does the internal audit staff review the adequacy and reasonableness of reports and statements generated by the accounting system?

Yes

No

If your answer is yes; how often do they check?

Daily  Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason below \_\_\_\_\_  
\_\_\_\_\_

16) What weakness and deficiencies of the internal audit have you observed with regards to ascertaining reliability and time lines of regulatory reporting?

Do you come up with new and improved ways of doing the job that increase economy and efficiency?

If your answer is yes; how often?

Daily  Weekly  Monthly  Semiannually  Annually

If your answer is No; state the reason below \_\_\_\_\_  
\_\_\_\_\_

17) Does senior management responds positively to internal audit findings and recommendations?

Yes

No

18) In general do you find the activities of the internal audit vital in promoting economy and efficiency of operation?

If your answer is No; what weakness and deficiencies of internal audit have you observed with regard to reviewing economy and efficiency of operation? \_\_\_\_\_

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## **Appendix II**

### **Interview Questions**

1. Does the internal audit department have independency?
2. Do you give continuous training programs?
3. How do you undertake investigation of internal audit staff?
4. What are the decision of internal auditing department and their quality of internal audit work?
5. What weakness and deficiencies of internal audit have you observed during the audit?
6. How is the relationship of internal auditors and the management?
7. Do you find the internal audit service of ERA is effective in prevention, detection and correction of fraud and errors?

## DECLARATION

I, the undersigned, declare that this senior essay is my original work, prepared under the guidance of Ato Fistsum Habte. All sources of materials used to the manuscript have been fully acknowledged.

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## Submission Approval Sheet

This senior research paper has been submitted for examination with approval of our advisor.

Name: \_\_\_\_\_

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