

EVALUATION OF EFFECTIVENESS OF INTERNAL AUDITING SERVICE IN SOUTHERN PUBLIC REGIONAL BUREAUS, ETHIOPIA

Abdu MohammedAssfaw*

ABSTRACT

An efficient and effective practice of internal auditing system is as a whole becomes vehicle for efficient and effective performance of the organization. The internal auditor is often considered one of the core pillars of corporate governance. Larger and more complex systems demand greater competency and professionalism from internal auditing, and scarce resources must be deployed more efficiently to minimize and manage risk. In line with this, the main purpose of the paper is evaluation of effectiveness of internal auditing system in government organizations in Ethiopia, especially in South Regional Bureaus. For achieving this objective, both primary and secondary data were drawn using questionnaires and interview and analyzed in the most appropriate techniques such as; frequency tables, percentages and chi-squared test. The study revealed that there was structural problem (reporting relationship) that impair the auditor independency and objectivity; there was not audit committee that leads to inefficient and ineffective internal audit work; there was inadequate technical staff proficiency and high staff turnover due to absence of continuous professional development programs for internal auditors and lack of sufficient salary that can retain exiting staffs and attract new competent professionals. Furthermore, auditee departments and the managements did not see that the audit service can add value to their activity and to the organization and they have not adequately supported the department. It was also evaluated that the scope of internal audit services is limited only to financial statement audit and performance audit is overlooked. Therefore, there should be extending the scope of internal audit services by including performance audit with appropriate

*** Lecturer in Department of Accounting and Finance, MizanTepi University, Ethiopia**

risk analysis; increase technical proficiency of the internal audit staff and minimize staff turnover; creating proper relationship with key stakeholders by creating awareness on internal as internal audit service in the organizations can add value to the overall success of the organization; establishment of audit committee; amending the reporting structure of internal audit department that can allow adequate independence to internal auditors; put into practice internal and external audit quality assurance and improvement programs, and alleviating other impeding factors related to audit execution in the organizations under study.

Key words: 1. Effectiveness 2. Government Organizations 3. Internal Audit

1.Introduction

1.1. Background of the Study

Internal Auditing is one of the world's fastest growing but most misunderstood professions. There are many definitions of the profession. For the IIA (1999) "Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. In order to fulfill these obligations, internal auditors review the reliability and integrity of financial and operating information; the systems established to ensure compliance with these policies, plans, procedures, laws and regulations; the means of safeguarding assets; the economy and efficiency with which resources are employed; and ascertain whether results of operations or programs are carried out as planned.

The globalization of economy, technological advancements, and complexity of business and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention to internal controls and internal auditing (Karagiorgos et al., 2009). This developing role of the internal auditing is also reflected in its current definition, i.e. "internal auditing is an independent, objective assurance and consulting activity designed to add value and improve a company'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" (Savcuk, 2007).

One of the most important objectives of an internal quality audit is measuring the effectiveness of an organization's quality management system. For this to happen, chief executive management must first meet its overriding responsibility of establishing and maintaining a system regarding quality policy, goals, resources, processes and effective performance--including monitoring and measuring the system's effectiveness and efficiency.(Stimson, 2001).

1.2. Statement of the Problems

Internal audit is an integral part of the finance structure of organizations. Even though there are direct relation effects of management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter with the internal audit effectiveness on the public sector management (Shewamene, 2014), internal audit is facing many challenges which were identified by the Ministry of Finance and Economic Development in its internal audit manual(MoFED,2005), such as: lack of expertise, lack of opportunity for professional development, repetitive audit routines which staffed members can predict, inability to insist on getting significant information because fears of losing promotion opportunities and lack of independence, wrong perception of the audit function and auditors by the staff of the public body. The reality is that internal auditing today still focuses on traditional activities, such as financial and compliance auditing. They spend most of their time ensuring that accounting records are properly maintained and reliable; that company assets are adequately safeguarded and properly maintained; and that the organization is in compliance with established policies and procedures.

The study concluded by NasibahHalimah Ahmad et al (October 15, 2012) indicated that the internal audit function in the public sector in Malaysia is curtailed by understaffing and hampered by inadequate support from top management while, the auditors seldom extend their full cooperation. The auditors themselves lack appropriate knowledge and training on effective auditing approaches. The negative perception accorded to internal audit led to inaction by management on recommended remedies which only serve to nullify the positive contribution internal audit potentially holds to elevate the service delivery quality of the public sector.

Thought internal audit effectiveness is strongly influenced by internal audit quality and management support (Dessalegn and Aderajew, 2007), internal auditors have gained less credit from their management that doubts the effectiveness of internal auditors (Tarekegn, 2015). There is also lack of gathering sufficient audit evidence, exercising due professional care, demonstrating appropriate level of professional skepticism, and designing audit programs and planning engagement.

In the heat of the controversies for incompetent public sector performances, Ethiopia as a developing economics and Southern Nation Nationalities and Peoples Regional States in particular has to garner her resources for effective developmental utilization and the need for the services of Internal Auditors in the public sector becomes more imperative, hence this research was conducted into the effectiveness of using internal audits as instrument of improving public sector management.

1.4. Objectives of the Study

1.4.1 General Objective

The overall objective of this study is to evaluate the effectiveness of internal auditing system in governmental organizations in Southern Public Regional Bureaus, Ethiopia.

1.4.2. Specific Objectives

Particularly the researcher had the aim of investigating the following specifically framed objectives of the study.

1. To assess the risk management practices of internal audit service in the study area
2. To evaluate the level of independence and objectivity of internal auditing in the study areas.
3. To assess the scope of audit work undertaken in the study areas.
4. To assess the reporting and follow-up process of the internal audit department of the study area

1.5. Significance of the Study

In a very beginning, the study assessed and provided a comprehensive finding on the analysis of the effectiveness of internal auditing system in Governmental Organizations in South Regional

Bureaus. Basically, the study focused on understanding the astonishing effect of efficient and effective auditing system to the organizations and assisting through providing constructive suggestions to resolve it. Therefore, here, the findings of this study might enable the organizations through proclaiming what type of impinging factors really exists and possible means to handle these discrepancies.

Because of this research finding, internal and external users of the study might be just highly benefited. Internal stakeholders like management bodies and staffs to know level of organization's problem addressing internal auditing and to take corrective action if needed. External stakeholders like the government bodies, external auditors and supervisors to search areas that organizations should focus and accordingly they may set proper standards and follow up for their implementation. This paper could be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the internal audit in Ethiopian Public organizations.

1.6. Delimitation of the Study

Many organizations whether they are governmental and/or non-governmental organizations may have their own internal auditing system. But to assess and analyze the effectiveness of this internal auditing system as a whole has become wider in its scope studying whole for all organizations once is impossible. Similarly, by inculcating such type of conditions, time and finance limitations, the paper concentrated only on the analysis of the effectiveness of internal auditing system in governmental organizations in Ethiopia, specifically, Southern Regional State Bureaus.

2. Review of Literatures

2.1. Concepts of Internal Auditing

In order to determine internal audit efficiency evaluation principles, it is important to analyze the concept of internal audit (Savcuk, 2007). Undoubtedly, the large amount of definitions that is given by many researchers depicts the great importance of internal auditing. More specifically, the IIA (1991 and 2004) defined 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. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources. Similarly, the United States Government Accountability Office (U.S GAO) (1999) noted that internal auditing is “an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations”.

2.2. Factors that Make Internal Audit More Efficient and Effective

Deloitte and Touché LLP Internal Audit Professionals (2005) saw the following elements as key for effective audit work. An effective internal audit function operates from a clear, updated charter; adapts its activities to the needs of the organization; uses a risk-based approach; reports directly to the audit committee; enjoys full support of management and the audit committee; maintains open communication with management and the audit committee; engenders respect and integrity throughout the organization; teams with other internal and external resources, as appropriate; provides leadership on issues of internal control, fraud, financial reporting, risk management, and corporate governance; leverages technology; deploys best-available methodologies; engages in continuous education and staff development; consistently reevaluates its effectiveness, and provides support to the company's anti-fraud programs.

Dessalegn and Aderajew(2007) suggested that the effectiveness of internal auditing is influenced by internal audit quality; management support; organizational setting; and capability, attitudes and level of cooperation of the auditees.

According to the IIA (2006), an effective public sector audit activity strengthens governance by materially increasing citizens’ ability to hold their government accountable. Accordingly, although the means to accomplish them will vary, at a minimum, all government audit activities require: Organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, competent staff, stakeholder support, and professional audit standards.

Cohen and Sayag (2010) measured internal audit effectiveness from Professional proficiency of internal auditors, Organizational independence, Quality of audit work, Career and advancement and Top management support perspectives. According to this study, the support of management is almost crucial to the operation and success of internal audit. The findings of the factor analysis showed that IA effectiveness is a multidimensional construct.

According to Statement 3.283 Auditing Guideline (Issued October 1992; revised September 2004), there are certain essentials for effective internal auditing such as independence and objectivity, appropriate staffing and training, constructive working relationships, exercise due care, adequate planning, controlling and recording, evaluation of the internal control system, proper evidencereporting and follow-up and sufficient, relevant and reliable evidence

2.2.1. Independence and Objectivity of Internal Auditors

To preserve their independence, government auditors' advisory/assistance services should never assume a management role. Moreover, auditors must maintain independence and objectivity for any subsequent audits conducted where advisory/assistance services have been provided previously (IIA, 2006). The internal audit activity must be independent and internal auditors must be objective in performing their work (Attribute Standards 1100 of the International Standards for Professional Practice of Internal Auditing, 2001, 2010; Government Internal Audit Standards, 2011, and the Code of Ethics, 2000).Accordingly, the internal auditor should have the independence in terms of organisational status and personal objectivity which permits the proper performance of his duties.

According to Nava Subramanian and Jenny Stewart (2008); International Standards for Professional Practice of Internal Auditing(2010); GIAS (2011), and the Code of Ethics (2000)study, the relationship between internal audit independence (the state of affairs that permits an objective attitude) and objectivity (the state of mind) is relatively unexplored.

2.2.1.1. Organisational independence

IIA (2006) stated that organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient

independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. Coupled with objectivity, organizational independence contributes to accuracy of the auditors' work and the ability to rely on the results and report. Given the variety of forms of government auditing, it is difficult here to specify one reporting line.

As identified by Dessalegn and Aderajew(2007) study, the internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

So, the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity (Attribute Standards 1100 of the International Standards for Professional Practice of Internal Auditing, 2001 and 2010; GIAS, 2011, and the Code of Ethics, 2000).Sarens and De Beelde (2006) argued that the status of internal audit should enable it to function effectively. Accordingly, the head of internal audit should have direct access to, and freedom to report to all senior management including the chief executive, board of directors and, where one exists, the audit committee. Similarly, Attribute Standards 1110- 1of the International Standards for Professional Practice of Internal Auditing (2010) states that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

2.2.1.2. Objectivity of the Internal Auditors

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest (Attribute Standards 1120 of the International Standards for Professional Practice of Internal Auditing, 2010; GIAS, 2011, and the Code of Ethics, 2000).Accordingly, internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their

unbiased assessment; shall not accept anything that may impair or be presumed to impair their professional judgment; and shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. Goodwin, and Yeo (2001) and IIA Code of Ethics (2000) also depicted that each internal auditor should have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

2.2.2. Presence of Formal Mandate (Approved Audit Charter)

The audit activity's powers and duties should be established by the government's constitution, charter, or other basic legal document. Among other topics, this document would address procedures and requirements of reporting, the obligation of the audited entity to collaborate with the auditor (IIA, 2006).

As per the International Standards for Professional Practice of Internal Auditing (2010); GIAS (2011) and the Code of Ethics (2000) pronouncements, in every type of entity, the Audit Committee should develop appropriate internal audit charter that specifies on how the Internal Audit function could be administered and approved by senior management. The existence of proper audit charter helps the audit function to perform its role independently of management influence and objectively.

As indicated by the IIA definition of Internal Auditing (1999); Attribute Standards 1000 of International Standards for Professional Practice of Internal Auditing (2010); GIAS (2011) pronouncements, the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the Code of Ethics and the Standards. Accordingly, the nature of assurance services provided to the organization must be defined in organization; the nature of these assurances and consulting services must be defined in the internal audit charter, and the mandatory nature of the definition of Internal Auditing, the Code of Ethics and the Standards must be recognized in the internal audit charter.

2.2.3. Adequate Scope of the Internal Auditor Work

As the volume of a business develops to a level that includes analysis of management work it becomes inevitable for the area of internal audit activities to extend to other functions (commercial, technical, production) within the company. In this way internal auditor, besides assuring that the information contained in the books accurately reflects the facts, also evaluate policy, procedures, guidelines, quality of management, effectiveness of methods, and other functions.

As stated by study of Dessalegn and Aderajew(2007), extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. Staciokas and Rupsys(2005) also stated that internal audit department is usually responsible for assessing of asset safeguards, fraud investigations; evaluation of internal controls, operating process review and assessment, review of accounting and financial information, compliance (of procedures, policies, legal acts, etc.) audits and assessment of efficient usage of resources.

As suggested by Chambers, Selim, and Vinten, (1995), in order to achieve a predetermined area of activity, internal audit should examine and evaluate comprehensiveness and applicability of organizational, managerial, service, accounting, financial, commercial, marketing and other internal operational controls, efficiency and effectiveness of internal control system, level of compliance of all internal controls with the business strategy of the company set up by management, the adequacy and effectiveness of internal control systems and policy system of qualities that belongs to the accounting internal control and prevention of error and illegal activities .

2.2.4. Adequate Auditors' Proficiency and Due Professional Care

As per IIA (2006), the audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards. Engagements must be performed with proficiency and due professional care (Attribute Standards 1200 of International Standards for

Professional Practice of Internal Auditing, 2010 and Government Internal Audit Standards (GIAS), 2011).

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. So, the internal audit unit should employ staff with varying types and levels of skills, qualifications and experience in order to satisfy the requirements of each internal audit task.(Attribute Standards 1210:1-3 of International Standards for Professional Practice of Internal Auditing, 2010).

To increase the competency of internal auditors, there should be continuous improvement of knowledge (Attribute Standards 1230 of International Standards for Professional Practice of Internal Auditing, 2001, 2010; GIAS, 2011).As such, training should be tailored to the needs of the individual. It should include both theoretical knowledge and its practical application under the supervision of suitably competent and experienced internal auditors.

According to Dessalegn and Aderajew(2007) study and IIA (2010) survey, since internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. It is necessary to look for more variety in internal audit, including engineers, scientists, management consultants and people with change management experience.

Internal auditors must also apply the due care and skill expected of a reasonably prudent and competent internal auditor (Attribute Standards 1220 of International Standards for Professional Practice of Internal Auditing, 2010; GIAS, 2011, and the Code of Ethics, 2000). Regarding this, internal auditors must exercise due professional care by considering the extent of work needed to achieve the engagement's objectives, relative complexity, materiality, or significance of matters to which assurance procedures are applied, adequacy and effectiveness of governance, risk management and control processes, probability of significant errors, fraud, or non-compliance, and cost of assurance in relation to potential benefits.

2.2.5. Appropriate Relationships/Stakeholder Support

2.2.5.1. Management Relationships

The Attribute Standard 1110 of International Standards for Professional Practice of Internal Auditing(2004 and 2010) states that, keeping organizational independence, top managers can support internal auditors in identifying high-risk areas by asking them to include certain processes in the audit plan. Therefore, a key decision about the organizational role of internal audit (IA) concerns its relationship with top management and audit committee (AC). If IA reports to the AC, its role within the organization is also reinforced and the communication of managerial problems to the top levels of the company is helped (Goodwin & Yeo, 2001).

It is important to emphasize that internal audit should have an established two-way communication with management in performing the tasks, and that it needs to develop a system of risk management which will involve all employees in all organizational units and at all levels in the company(Ljubisavljević and Jovanović,2011).

As per the IIA (2007), the head of internal audit should prepare the internal audit plan in consultation with senior management. The internal auditor should arrange the timing of internal audit assignments in consultation with the management concerned, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Dessalegn and Aderajew(2007) study also showed as management support is one of the two most important factors (the other being internal audit quality) influencing audit effectiveness.

2.2.5.2. Relationship with External Auditors

Ernst and Young LLP and Tapestry Networks (2011) stated that internal auditors should build strong relationships with the external auditors. There must be regular and informal communication between internal auditors and external auditors. But, the relationship between internal and external audit needs to take account of their differing roles and responsibilities. The study conducted by RehanaFewzia(2010) indicated that the aim of relationship should be to achieve mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary over-lapping of work. Best practice of co-operation is built on commitment, consultation, communication and confidence. It should be possible for the external

and internal auditors to rely on each other's work, subject to limits determined by their different responsibilities, respective strengths and special abilities. Regular meetings should be held between internal and external auditors at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged.

2.2.5.3. Relationship with Auditees

In this respect, the auditees' perception of the auditors themselves can be significantly affected. Office of Auditors General of Canada (1992) survey advised that auditors should view auditees as customers along with audit committee and senior management. They should report detailed findings to the auditees and providing only a summary of truly a significant matter to top management and audit committee and asking auditees after audit has indeed, if they were satisfied with the audit, how useful it was, and whether they have any suggestion for improving future findings.

It is very important because internal auditors need audited departments to cooperate to execute their auditing successfully. The attitude of audited department is closely related to the success or failure of internal auditing. The level of cooperation of the auditees and auditees' capability in light of established criteria should be nevertheless sound enough not to adversely influence audit effectiveness (Dessalegn and Aderajew, 2007).

2.2.6. Existence of Audit Committees

The audit committee can greatly strengthen the independence, integrity, and effectiveness of governmental audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization. Audit committees also ensure that audit results are aired and any recommended improvements or corrective actions are addressed or resolved (IIA, 2006).

As per Internal Auditors Frame Work (2007), the key responsibilities of an Audit Committee include overseeing the risk management framework and processes; reviewing compliance related matters and internal controls; overseeing the relationship, appointment and work of the external and internal auditors; reviewing the annual financial statements and recommending them for

governing body approval; ensuring that internal audit activity is structured to achieve organizational independence; ensuring the internal audit charter permits full and unrestricted access to top management, the Audit Committee and the governing body; ensuring unrestricted access by internal auditors to records, personnel, and physical properties; ensuring the function is appropriately resourced; and ensuring the function is operating effectively. It was also supported by Ernst and Young LLP and Tapestry Networks (August 2011).

2.2.7. Conformity with Ethical Standards (Professional standards)

According to IIA (2006), Professional audit standards support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Just as many governments have adopted internal control standards — either as requirements or guidance for public sector managers — audit activities should conduct their work in accordance with recognized standards. The chief audit executive may state that the internal audit activity conforms to the International Standards for Professional Practice of Internal Auditing if the results of the quality assurance and improvement program support this statement (Attribute Standards 1321 of the International Standards for Professional Practice of Internal Auditing, 2001 and 2010; GIAS, 2011 and the Code of Ethics, 2000). The internal auditor should not improperly disclose any information obtained during the course of his work (Controller General of Accounts (CGA), 2006).

2.2.8. Presence of Quality Assurance and Improvement Program

The 1300 advisory role of International Standards for Professional Practice of Internal Auditing (2001, 2010) and GIAS (2011) stated that the heads of internal audit unit should promote and maintain adequate quality standards. He should establish methods of evaluating the work of his staff to ensure that the internal audit unit fulfils its responsibilities and has proper regard to this guideline.

2.2.8.1. Internal Assessments

According to 1311 advisory role of International Standards for Professional Practice of Internal Auditing, internal assessments must include: Ongoing monitoring of the performance of the

internal audit activity; and Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

2.2. 8.2. External Assessments

According to 1312 advisory role of International Standards for Professional Practice of Internal Auditing, external assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. As described by the study of Dessalegn and Aderajew(2007), the audit team leaders should undertake a thorough quality review of the audit working papers and draft reports to ensure that the audit work has been performed as planned and is documented properly.

2.2.9. Presence of Adequate Audit Planning and Execution

Dessalegn and Aderajew(2007) depicted that planning is generally considered a vital audit activity and it includes preparing a strategic plan, annual plans and programs for individual audit assignments. Proper planning enables accomplishment of a large number of audits in a given period by improving efficiency.

It was also revealed by the International Standards for Professional Practice of Internal Auditing(2001, 2010) and GIAS (2011) that chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. This implies that the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process; the chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organization's operations; accepted engagements must be included in the plan; the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval, and the chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

2.2.10. Risk Management (RM)

Vasile, Croitoru and Gherghelas (2011) stated that internal audit helps the public entity or organization working in the private system, providing assurance that risk management system is adequate and sufficient to protect the funds and good management of their heritage, thus helping to identify and assess significant risks and basing recommendations improve this system. According to the study, internal audit should provide assurance that risk management system is adequate and sufficient to protect their assets, reputation and activities, to help identify and assess significant risks and to propose recommendations for improving this system.

The Țurlea and Ștefănescu (2009) indicated that the main roles of the internal audit in the risk management process of the economic entities related with giving of assurance within the risk management process; provision of assurance that risks are correctly evaluated; evaluation of the process of risk management of the entity; evaluation of the reporting of the main risks, and reviewing of the management of the main risks. This idea was also supported by IIA (2004 and 2006), 2120 of International Standards for Professional Practice of Internal Auditing (2001, 2010) and GIAS (2011) guide lines and the study Subramanian and Stewart, and Gramling, and Myers (2006) by indicating that internal audit helps the entity by identifying and evaluating the exposures to significant risks; supervises and evaluates the effectiveness of the risk management system, and contributes to the improvement of the risk management systems

2.2.10. Unrestricted Access to Audit Evidences

Audits should be conducted with complete and unrestricted access to employees, property, and records (IIA, 2006). Accordingly, internal auditor should obtain evidences that are considered sufficient, relevant and reliable for the achievement of the internal audit assignment objectives (International Standards for Professional Practice of Internal Auditing, 2010 and GIAS, 2011).

2.2.12. Proper Reporting and Follow-up of Recommendations

With reference to the 2060 of International Standards for Professional Practice of Internal Auditing (2010) pronouncements, CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative

to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board. The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

Goodwin and Yeo (2001) stated that if internal audit reports to the audit committee, its role within the organization is also reinforced and the communication of managerial problems to the top levels of the company is helped. According to the 2500 of the International Standards for Professional Practice of Internal Auditing(2010) pronouncements, the chief audit executive must establish and maintain system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The IIA Practice Advisory 1110-2: Chief Audit Executive Reporting Lines, (December 2002) revealed that the reporting line should be to someone with sufficient authority to provide internal audit with sufficient support to accomplish its day-to-day activities and that should facilitate open and direct communications with the chief audit executive, the senior executive group and line management.

It was also suggested by Controller General Accountant (CGA) (2006) and Nordin and Gansberghe (2005)that the internal audit reporting should be accurate, timely, and reliable and should have integrity so that it can support decision making. As also revealed by study of Dessalegn and Aderajew(2007), audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting.

3. Research Methodology

3.1. Descriptions of the Study Area

The Southern Nations, Nationalities and People's Region is located in the Southern and South-Western part of Ethiopia. Astronomically, it roughly lies between 4^o.43 - 8^o.58 North latitude

and 34° .88- 39° .14 East longitude. It is bordered with Kenya in South, the Sudan in South West, Gambella region in North West and surrounded by Oromiya region in North West, North and East directions. The total area of the region estimated to be 110,931.9 square km which is 10% of the country and inhabited by a population size of about 15,760,743 (in 1999E.C.) - accounting nearly 20% of the total population of the country. The population density of the region became 142 persons per square km, which makes the region one of the most populous parts of the country.

The region is a multination which consists of about 56 ethnic groups with their own distinct geographical location, language, cultures, and social identities living together. These varied ethnic groups are classified in to the Omotic, Cushetic, Nilo-Sahara and Semitic super language families. Based on ethnic and linguistic identities, the region is at present divided into 13 zones (sub-divided in to 126 Woredas) and 8 special Woredas. This again divided into 3678 rural Kebeles. Regarding urban areas there are 22 town administration and 114 certified towns with municipal city status totally having 238 urban Kebeles. There are 33 regional bureaus which are working at regional levels. (<http://www.snnprs.gov.et/>).

3.2. Sources of Data

For obtaining abundant data which enables successfully accomplish this study, the researcher has used both primary and secondary sources of data. The primary data were obtained from management bodies, internal auditors and accountants of governmental organizations. Similarly, secondary data were extracted from different related documents like: different journals, academic books, manuals, internet access, modules and other published and unpublished materials.

3.3. Sampling Size and Techniques

Selection of Regional Bureaus: Southern Regional State is a very large region that has relatively large organization (33 regional bureaus) each of which has its own number of employees under it. The organizations are service providers for the peoples by engaging themselves in education, health, road construction, water resource development, agriculture, finance and economy, transport, trade and industry and managerial aspects. All this population could not be taken as a respondent for this research due to its unmanageability. So, in the process

of data collection, 10 organizations as samples were taken using non probability sampling, specifically purposeful sampling for the assumption that there are high capital flows that can be exposed to corruption and embezzlement unless there is effective internal audit service in the system. Therefore, the selection of these organizations was assumed to be logical and representative of the population.

Selection of Staff Respondents: For primary data collection, 10 general managers or directorates and 33 internal auditors were selected by using census method and 50 accountants (out of 120) were selected by using purposive sampling technique believing that they have good academic background and experience from each of the following South Regional Bureaus on the basis of probability proportional to size. 1) Agriculture Development Bureau 2) Roads Authority 3) Finance and Economic Development 4) Water Resource Development 5) Roads Construction Authority 6) Education Bureau 7) Health Bureau 8) Revenue and Custom Authority Bureau 9) Transport Bureau and 10) Trade And Industry Bureau. The interview was used to corroborate the patterns that evolved from the data collected via questionnaires, so that the validity of the findings could be enhanced.

Table-2.1: Sample selection for accountants

S.No	Name of organizations	Total population	Samples taken
1	Agriculture development bureau	18	8
2	Management Institute	8	3
3	Finance and economic development	15	6
4	Water Resource Development	12	5
5	Roads construction authority	18	8
6	Education bureau	12	5
7	Health Bureau	12	5
8	Revenue and Custom Authority bureau	8	3
9	Transport Bureau	9	4
10	Trade and Industry Bureau	8	3
	Total	120	50

Table-2.2: Total samples of the study

S.No	Sampled item	Sample size
1	Manages	10
2	Internal auditors	33
3	Accountants	50
	Total	93

Source: Researcher own computation, 2012

3.4. Data Collection Methods

In the process of gathering data, different methods have been utilized. For collecting primary data- structured questionnaire (both open and close ended questions) in the identified site about betterment or worseness of the internal auditing system. The questionnaire was formulated keeping in mind the objectives of the research study. Lastly, interview was being taken as a means to acquire additional reliable data. The secondary data needed for achieving the paper on the other side were collected from different published and unpublished materials as well as technological devices like websites.

3.5. Methods of Data Analysis and Interpretation

The qualitative and quantitative data-sets were analyzed using appropriate statistical analysis software (SPSS version 20). For the sake of analyzing the collected data in appropriate manner, simple descriptive methods have been employed. Tables, figures, mean and percentages and chi-squared test were used to present analyze the data.

4. Result and Discussion

4.1. Introduction

A total of 93 questionnaires were distributed for the sampled regional bureaus; out of which the 80 (87.03%) of the questionnaires were returned and the remaining 13(13.97%), of which 3 from managers and 10 from accountants, were not returned and invalid due to incompleteness of responses. In addition, interviews were also conducted with heads of internal auditors with in sampled regional bureaus.

4.2. Demographic Characteristics of Sample Respondents

Table 4.1 shows that the general characteristics (back ground) of survey that includes sex, level of education, position and age within the organizations. The table indicates 47.5 % employees included in the study were females and the rest 52.5 % are males. This is also shown that all managers, minority of auditors (45.46%) and half of accountants (50%) were male staffs and the rest are female staffs (54.54%). Majority of internal audit staff is accompanied by females. When it comes to the educational status of the sampled respondents, it was found that about 27.5 % are diploma holder, whereas, 70 % employees are BA degree holders, and the remaining 2 (2.5%) are master degree holders (managers only). As it is observed in the table, about 24.24% of internal auditors and 35% of accountant are diploma holders and 71.43% of managers, 75.76% of internal auditors and 65% of accountants are BA degree holders. This implies that majority of employees of internal auditors; managers and accountants have BA degree. No one of internal auditors holds education qualification above BA degree. The age of the sampled respondents ranges from 20 to 59 years. About 62.5% of the respondents were found in the most actively

S.No	Descriptions		Frequency of response(N=80)							
			Managers		Auditors		Accountants		Total	
			No	%	No	%	No	%	No	%
1	Sex	Male	7	100	15	45.46	20	50	42	52.5
		Female	-		18	54.54	20	50	38	47.5
		Total	7	100	33	100	40	100	80	100
2	Age	20-29	-	-	5	15.15	11	27.5	16	20
		30-39	3	42.86	11	33.33	20	50	34	42.5
		40-49	4	57.14	12	36.36	9	22.5	25	31.2
		50-59	-	-	5	15.15	-	-	5	6.2
		>60	-	-	-	-	-	-	-	-
		Total	7	100	33	100	40	100	80	100
		Mean							2.2375	-
3	Education	Diploma	-	-	8	24.24	14	35	22	27.5
		BA degree	5	71.43	25	75.76	26	65	56	70
		Msc degree	2	28.57	-	-	-	-	2	2.5
		Above Msc	-	-	-	-	-	-	-	-
		Total	7	100	33	100	40	100	80	100
		Mean							1.775	
4	Position		7	8.8	33	41.2	40	50	80	100

working age category (20-39years). As it is observed on (Table 4.1), out of the sampled staffs, 8.8%, 50% and 41.2% were managers, accountants and internal auditors respectively.

Table 4.1: Distribution of sampled members by sex, age, education level and position of work
Source:survey Questionnaire, 2012

4.3. Independence and Objectivity

Proper independence and objectivity promotes effective internal audit work in the organizations. As revealed by the table 4.2, about 13.2%, 36.5%, 30% and 10% respondents reported as strongly disagreed, disagreed, agree and strongly agreed respectively that the structure of their internal audit promotes independence and objectivity of internal audit service. This indicates that majority of respondents (50%) negatively responded that the structure of their internal audit promotes independence and objectivity of internal audit service. The main reason for this is that whenever the internal audit finds out corrective actions, the management involves directly or indirectly and then the report goes to this management unit as well. The corrective action, therefore, falls in danger so that the findings may be filtered by management. This is also statistically significant difference among respondents opinion as revealed by chi-squared test result, $X^2(4, N=80) = 24.125$, $p < .001$ and mean result = 2.8625, which is below average. It is also shown that about 32.5%, 33.8%, 16.2% and 3.8% of respondents replied as strongly disagree, disagree, agree and strongly agree respectively that their internal audit staff assignments are rotated periodically. This indicates most respondents 66.30% marked that internal audit staff assignments did not rotated periodically. It is also proven by the chi-squared test result, $X^2(4, N=80) = 26.500$, $p < .001$, which is statistically significant difference among respondents' opinion, and mean result = 2.2500, which is below average.

The table also revealed that 7.5%, 24%, 35% and 17.5% of respondents responded as strongly disagree, disagree, agree and strongly agree respectively that internal auditors do not participate in audit of activities for the operation of which they were responsible. This implies, the majority of respondents (52.5%) replied positively that internal auditors do not participate in audit of activities for the operation of which they were responsible. It is also statistically significant

difference among respondents opinion as supported by the chi-square test result, X^2 (4, N=80) = 23.500, $p < .001$ and mean result = 3.2500, which is above average.

During interview time, most heads of internal auditors explained that to achieve proper independence of auditors in the organizations, there should be another oversight body to which the head of internal audit functionally responsible and report to audit findings and conclusions. They also added that the internal audit department did not get absolute independence and they are in need of Audit Committee.

Table-4.2: Independence and objectivity

No	Issues	Response Frequency (N=80)									
		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		No	%	No	%	No	%	No	%	No	%
1	The structure of internal audit promotes objectivities and independence	11	13.8	29	36.2	8	10	24	30	8	10
2	Internal audit staff assignments are rotated periodically	26	32.5	27	33.8	11	13.75	13	16.25	3	3.8
3	Internal auditors do not participate in audit of activities for the operation of which they were responsible.	6	7.5	24	30	8	10	28	35	14	17.5

Source : survey Questionnaire, 2012

Table-4.2.1: Statistical test of independence and objectivity

	For Item-1	For Item-2	For Item-3
Mean	2.8625	2.2500	3.2500
Chi-Square	24.125	26.500	23.500
Degree of freedom	4	4	4
Asymp. Sig.	.000	.000	.000

Source : survey Questionnaire, 2012

4.4. Existence of Formal Mandate

In the study areas, the respondents were asked whether or not they have formal policy (mandate) authorizing their internal audit function. Most of them (90%) positively supported as their internal audit department has a formal mandate authorizing their internal audit function, but few of them (10%) did not know whether there exist or not. This mandate has been found in the form of Charter (34.15%) and government law (70.73%). It is also observed that 38(95%) of respondents answered positively as the purpose of their internal audit is clearly defined. Among the respondents, about 34 (85%) replied as the authority of their internal audit department is clearly defined. Even though MoFED prepared and distributed the audit charter, most internal audit staffs did not refer it. This is because of lack of awareness.

Table-4.3: Existence of formal mandate

No	Descriptions	Frequency of responses(N=40 ^{**})					
		No		%			
1	Does your audit department have a formal mandate authorizing your internal audit function? -Yes - No -Don't Know(DK)	36		90			
		0	0				
		4	10				
2	If your answer is yes for the above item, in what format it is? ➤ Government law ➤ Charter	29		70.73			
		14		34.15			
	Descriptions	Frequency of responses(N=40^{**})					
		Yes		No		Don't know	
		No	%	No	%	No	%
3	Is the purpose of internal audit clearly defined?	38	95	0	0	2	5
4	Is the authority of internal audit clearly defined?	34	85	1	2.5	5	12.5

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.5. Internal and External Auditors' Linkage

As observed from the table-4.4, majority of respondents 42.5% responded that external auditors make recommendations that help to improve their internal audit department but still there are some organizations that did not receive recommendations from external auditors (37.5%). It is about 57.5% respondents explained that their internal audit department follow- up implementation of external auditor's recommendations on improvement of internal control systems. According to the data displayed in the table, external auditors use internal audit reports in conducting their audit (50%); there is a two-way communication between internal and external auditors on a matter of mutual interest (12.5%), and external and internal auditors discussed and agreed arrangements for sharing relevant files and working papers (20%). This implies that external and internal auditors did not discuss and agreed arrangements for sharing relevant files and working papers (62.5%) and there is no a two-way communication between them on a matter of mutual interest (65%). These realities were also revealed by head of internal auditors during interviews time.

Table-4.4 : Internal and external audit linkages

No	Descriptions	Frequency of responses(N=40 ^{**})					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Do external auditors make recommendations that help to improve internal audit?	17	42.5	15	37.5	8	20
2	Does internal audit follow- up implementation of external auditor's recommendations on improvement of internal control systems?	23	57.5	10	25	7	17.5
3	Do external auditors use internal audit reports in conducting their audit?.	20	50	11	27.5	9	22.5
4	Is there a two-way communication between internal and external auditors on a matter of mutual interest?	5	12.5	26	65	9	22.5

5	Did external and internal auditors discuss and agree arrangements for sharing relevant files and working papers?	8	20	25	62.5	7	17.5
---	--	---	----	----	------	---	------

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.6. Existence of Audit Committee

The audit committee can greatly strengthen the independence, integrity, and effectiveness of government audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization.

Table-4.5: Existence of audit committee

<u>No</u>	<u>Descriptions</u>	<u>Frequency of responses(N=40^{**})</u>					
		<u>Yes</u>		<u>No</u>		<u>Dk</u>	
		<u>No</u>	<u>%</u>	<u>No</u>	<u>%</u>	<u>No</u>	<u>%</u>
1	Is there audit committee in your audit department?	0	0	40	100	0	0
2	If your answer is No, do you believe to have it?	40	100	0	0	0	0

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

As shown in table 4.5, about 100% respondents indicated that there is no audit committee in their organization and they (100%) also replied that it is very important to have it. During interview, all heads of internal audit departments said that having audit committee keeps their independence and improve the work of internal audit department. Further, they replied that audit committee builds confidence to internal auditors for performing their duties.

4.7. Stakeholders Support

The table 4.6 displays about 51.25% of respondents responded as their internal audit department tries to develop and manage appropriate relation with its key stake holders like top management and staffs but still it is at its infant stage 33.75%. It is also shown that 52.5% of respondents replied as auditees did not regard internal audit service as value adding service to their department and provide undue support to the internal audit service though there are some organizations that auditees regarded their internal audit service as value adding service to their department and provide undue support to the internal audit function as argued by 42.5% of respondent.

During interview, what the heads of internal auditors replied was that mostly auditees saw auditors as fault finders and see them as an enemy. They also added that the management either knowingly or unknowingly has less concern towards the improvement of internal audit service. This is due to lack of awareness that they did not understand that their internal audit department could add value to their functioning and helps to achieve the goals of the organization as a whole.

Table-4.6: Stakeholders' support

No	Description	Response Frequency (N=80)	
		No	%
1	Does internal audit department tries to develop and manage appropriate relation with its key stake holders?		
	- Yes	41	51.25
	- No	27	33.75
	-Don't Know	12	15
	Total	80	100
2	Do auditees regard internal audit function as value adding service to their department and provide undue support to the internal audit function?		
	-Yes	34	42.5
	- No	42	52.5
	-Don't Know	4	5
	Total	80	100

Source : survey Questionnaire, 2012

4.8. Compliance with International Professional Standards

From the table 4.7, it can be observed that about 25% of respondents replied that their internal audit activities are conducted in accordance with recognized professional standards which is Amharic version of Institute of Internal Auditors in the form of charter. But, most respondents 60% answered that their internal audit work is conducted in accordance with government laws issued by the regional government.

Table 4.7: Compliance with international professional standards

No	Description	Frequency of responses(N=40 ^{**})					
		Yes		No		DK	
		No	%	No	%	No	%
1	Do audit activities conducted in accordance with recognized International Professionalstandards (e.g. IIA)?	10	25	24	60	6	15

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.9. Proficiency of Internal Audit Staff

Table-4.8 revealed that 42.5% of respondents replied that their internal audit department has enough number of staffs to successfully carry out its duties, whereas majority of respondents 50% agreed that their internal audit department has not enough number of staffs to successfully carry out its duties, which indicates most internal audit departments are handicapped by shortage of man power. With regard to item 2, except some of the respondents (25%), majority (67.5%) explained that their audit department has internal auditors who possess sufficient experience to understand the organization 's system. Concerning item 3, most respondents (70%) replied that their audit department has not internal audit staffs who possess knowledge and skills in a variety of areas (beyond accounting and finance). It is only 20% of respondents supported the idea that their audit department has internal audit staffs who possess knowledge and skills in a variety of areas (beyond accounting and finance). This revealed that most internal auditors are specialized only in accounting and finance.

When it is seen from the table, only 15% of respondents responded that the internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses). Majority of respondents (80%) replied that the internal auditors did not undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses). As far as item 5 concerned, about 57.5% of respondents indicated that there is no adequate short-term and middle term training arrangement for internal auditors each year. It is only 10% respondents indicated that there is sufficient salary that can retain exiting staffs and attract new competent professionals but the majority of them (87.5%) argued that there is no sufficient salary that can retain exiting staffs and attract new competent professionals. So, the data indicates that most internal audit department has not internal audit staffs who possess knowledge and skills in a variety of areas (beyond accounting and finance); internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses); adequate short-term and middle term training arrangement for internal auditors each year and no sufficient salary that can retain exiting staffs and attract new competent professionals. The above facts were also explained by the head of internal auditors during the carry out of interview by the researcher.

Table-4.8: Proficiency of internal audit staff

No	Descriptions	Frequency of responses(N=40 ^{**})					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Is internal audit department large enough to successfully carry out its duties?	17	42.5	20	50	3	7.5
2	Does internal auditors possess sufficient experience to understand the organization's system?	27	67.5	10	25	3	7.5
3	Does internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary?	8	20	28	70	4	10
4	Do internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses)?	6	15	32	80	2	5

5	Is there adequate short-term and Middle term training arrangement for internal auditors each year?	15	37.5	23	57.5	2	5
6	Is there sufficient salary that can retain exiting staffs and attract new competent professionals?	4	10	35	87.5	1	2.5

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.10. Audit Planning and Execution

To perform audit activity properly, audit planning and engagement is becoming a vehicle.

Table-4.9: Audit planning and execution

No	Descriptions	Frequency of responses(N=40 ^{**})					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Does your audit department prepare appropriate audit planning engagement & execution program?	39	97.5	0	0	1	2.5
2	Is annual internal audit plan prepared?	38	95	1	2.5	1	2.5
3	Is risk assessment done as part of audit planning?	36	90	4	0	0	0
4	Is fraud risk considered in setting audit priorities?	29	72.5	10	25	1	2.5
5	Is a preliminary survey is conducted before an audit?	13	32.5	26	65	1	2.5
6	Is there adequate planning ,controlling and recording of each audit work?	22	55	18	45	0	0
7	Is audit work documented and maintained in a file of audit working papers?	38	95	2	5	0	0
8	Have all audit functions that were approved in auditing plan been completely implemented?	14	35	26	65	0	0
9	If your answer is No, are the following becomes major challenges? Lack of adequate budget Lack of adequate and competent man power Inadequate support from auditees function and Auditees non-readiness	Frequency of responses(N=40 ^{**})					
		No					%
		1					2.5
		11					27.5
20					50		

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

As per table-4.9, majority (97.5%) of respondents supported the idea that their internal audit department prepared audit planning engagement. It is also seen that in preparation of audit planning and execution, annual internal audit plan is prepared 95%,adequate planning ,controlling and recording of each audit work (55%),a risk assessment is done as part of audit planning (90%) , fraud risk is considered in setting audit priorities (72.5%), a preliminary survey is conducted before an audit (32.5%) and audit work is documented and maintained in a file of audit working papers (95%).Here also there is inadequacies in the area that senior management input is considered in setting internal audit priorities and a preliminary survey is conducted before an audit.

Most respondents (65%) replied that all audit functions that were approved in auditing plan has not been completely implemented. This is because of lack of adequate budget (2.5%), lack of adequate and competent man power (27.5%), and inadequate support from auditees function and auditees' non-readiness (50%).

4.11. Scope of Internal Audit Work

Adequate and proper detail of scope of internal audit work is important for effective functioning of the organization. As it is revealed by the table-4.10 ,there is verifying adequacy and integrity of financial and other data prepared (90%), reviewing information contained in reports of operating departments (70%), reviewing the systems for safeguarding of asset (82.5%), evaluating the internal control system (85%), performing audit of major fraud cases (80%), ascertaining compliance with organizational policies and procedures (80%) ,checking compliance with contracts when applicable (37.5%), ascertaining that operating objectives are consistent with organizational goals (46.3%), reviewing operations to ascertain they were implemented as intended (42.5%), identifying risk exposures of the organization (82.5%), providing consulting services to management (62.5%), evaluations of attainment of economy, efficiency and effectiveness (22.5%), and checking compliance with external laws and regulations (47.5%). During interview also the heads of internal auditors also stated as the above facts have been realized in their audit department, and they explained that the scope of internal audit work should be detailed as per the nature of organizations and adequate and competent man power is also required to conduct these very detailed activities.

Table-4.10: Scope of internal audit work

No	Descriptions Do you think that the following activities are performed by your internal audit department?	Frequency of responses(N=40 ^{**})					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Verifying adequacy and integrity of financial and other data prepared	36	90	2	5	2	5
2	Reviewing information contained in reports of operating departments	28	70	9	22.5	3	7.5
3	Reviewing the systems for safeguarding of asset	33	82.5	7	17.5	0	0
4	Evaluating the internal control system	34	85	6	15	0	0
5	Performing audit of major fraud cases	32	80	8	20	0	0
6	Ascertaining compliance with organizational policies and procedures.	32	80	7	17.5	1	2.5
7	Checking compliance with contracts when applicable.	15	37.5	22	55	3	7.5
8	Ascertaining that operating objectives are consistent with organizational goals	17	42.5	23	57.5	0	0
9	Reviewing operations to ascertain they were implemented as intended.	17	42.5	21	52.5	2	5
10	Identifying risk exposures of the organization.	33	82.5	7	17.5	0	0
11	Providing consulting services to management.	25	62.5	13	32.5	2	5
12	Evaluations of attainment of economy, efficiency and effectiveness	9	22.5	28	70	3	7.5
13	Checking compliance with external laws and regulations	19	47.5	15	37.5	6	15

Source: survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.12. Risk Analysis/ Assessments/ of the Organization

Auditors should analyze and assess the riskiest areas in the organization for proper functioning of different activities. As it is displayed in the table-4.11, majority of respondents (77.5%) replied that auditors systematically review/assess risk management process of the organization. In this

regard, the internal audit department gives assurance within the risk management process (57.5%); gives assurance that risks are correctly evaluated (37.5%); evaluates the process of risk management of the entity (47.5%); evaluates the reporting of the main risks (47.5%), and reviews the management of the main risks (27.5%). It is also observed that majority of respondents (72.5%) replied as auditors have strongly risk identification and planning methodology and deliver a high quality service process.

When the respondents asked the risk nature covered by their internal auditor's risk assessment process, they explained as financial (67.5%), reporting (45%), operational (55%) and compliance (35%).

Table-4.11: Risk analysis/ assessments/ of the organization

No	Descriptions	Frequency of responses(N=40 ^{**})					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Do auditors systematically review/assess risk management process?	31	77.5	5	12.5	4	10
2	Do auditors have strongly risk identification and planning methodology and deliver a high quality service process?	29	72.5	11	27.5	0	0
3	Do the following activities are performed in your audit department?	Frequency of responses(N=40 ^{**})					
		No		%			
	○ Gives assurance within the risk management process	23		57.5			
	○ Gives assurance that risks are correctly evaluated	15		37.5			
	○ Evaluates the process of risk management of the entity	19		47.5			
	○ Evaluates the reporting of the main risks	19		47.5			
4	Are the following risk natures covered by internal auditor's risk assessment?						
	○ Financial	27		67.5			
	○ Operational	22		55			
	○ Compliance	15		37.5			

○	Reporting	18	45
○	Operational	22	55
○	Compliance	14	35

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

4.13. Internal Audit Performance and Quality Assurance

In order to assure the quality of service that was delivered by internal audit department, it is necessary to adopt both internal and external performance measure and quality assurance programs. The table-4.12 showed, majority of respondents (55%) replied that their internal audit department did not survey its key stakeholders upon the completion of audits and other projects how the quality is effective. It was only 33.8% of respondents supported the statement that their internal audit department surveyed its key stakeholders upon the completion of audits and other projects how the quality is effective.

It is also shown that except some respondents (23.8%), most (55%) of responded that their internal audit department does not undertake an external quality assessment review of its overall effectiveness. A few respondents (21.2%) replied as they did not know whether or not their internal audit department undertook an external quality assessment review of its overall effectiveness.

Table-4.12: Internal audit performance and quality assurance

No	Descriptions	Response Frequency (N=80)					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Does Internal Audit survey its key stakeholders upon the completion of audits and other projects how the quality is effective?	27	33.8	44	55	9	11.2
2	Does your Internal Audit department undergo an external quality assessment review of its overall effectiveness?	19	23.8	44	55	17	21.2

Source : survey Questionnaire, 2012

4.14. Access to Audit Evidence

For performing internal audit work effectively, it is necessary to have unrestricted access to necessary audit evidences on timely manner. Table-4.13 summarizes that majority of respondents (63.8%) in the study area reported that there has been unrestricted access to audit evidence (i.e. all necessary information, records, employees, etc) to come to an informed judgment in the audit work. It was about 26.2% of respondents regarded as there is not unrestricted access to audit evidence (i.e. all necessary information, records, employees, etc) to come to an informed judgment in the audit work. About 71.25% of respondents replied as auditees facilitate available documents for successful accomplishment of audit work. Some respondents (25%) argued that as auditees did not facilitate available documents for successful accomplishment of audit work. It was also shown that majority of respondents (82.5%) replied that audit evidences obtained is sufficient, relevant and reliable and support audit conclusions and recommendations of audit work. But, about 12.5% of respondents displayed that audit evidences obtained was not sufficient, relevant and reliable and support audit conclusions and recommendations of audit work.

Table-4.13: Access to audit evidence

No	Descriptions	Response Frequency (N=80)					
		Yes		No		Dk	
		No	%	No	%	No	%
1	Is unrestricted access to audit evidence (i.e. all necessary information, records, employees, etc) to come to an informed judgment in the audit work?	51	63.8	21	26.2	8	10
2	Do auditees facilitate available documents for successful accomplishment of audit work?	57	71.25	20	25	3	3.75
3	Are evidences obtained sufficient, relevant and reliable and support audit conclusions and recommendations?	66	82.5	10	12.5	4	5

Source : survey Questionnaire, 2012

4.15. Reporting and Follow-Up

After the audit work has been finalized, it is necessary to communicate the findings and recommendations to the concerned body on a timely basis and follow up the proper implementation of the recommendations given during internal audit work. It is shown from the table-4.14 that about 70% of respondents replied that the findings of the internal audit (i.e. audit reports) were prepared on a timely basis. But, about 23.8% of respondents responded that the findings of the internal audit (i.e. audit reports) were not prepared on a timely basis.







Further, about 68.8% of respondents supported the statement that the recommendations of internal audit are easily implemented. It was only 20% of respondents indicated that the recommendations of internal audit are not easily implemented. The majority of respondents (62.5%) said that the recommendations of internal audit department provide practical, cost benefit solutions for correcting the problems that were found. A few of the respondents (25%) regarded that the recommendations of internal audit department provide practical, cost benefit solutions for correcting the problems that were found.

From the table, it is also observed that although a majority of respondents (63.8%) responded that internal audit reports are clear and well presented; a few respondents (20%) had reverse responses. It was also indicated that 71.2% of respondents gave their response as audit findings and conclusions communicated promptly to management. It is about 12.5% of respondents argued that the audit findings and conclusions communicated promptly to management and the rest of respondents (16.2%) did not know about this issue. Regarding follow-up of implementation of findings, a majority of respondents (68.8%) replied that internal auditors follow up implementation of corrective actions relating to audit findings and recommendations. But, it is about 21.2% of respondents argued that internal auditors did not follow up implementation of corrective actions relating to audit findings and recommendations.

Regarding the frequency of reporting of internal audit findings, it becomes semi-annually (22.5%), quarterly (15%), monthly (85%) and as per needed (37.5%). When it is seen the reporting line, the head of internal auditors reported to top management/directorate (100%) and

others (i.e. to the Regional Finance and Economy Inspection Team (100%).The head of internal auditors did not report to the board and audit committee since they do not have such bodies.

Table-4.14: Reporting and follow-up

No	Descriptions	Response Frequency (N=80)					
		Yes		No		Dk	
		No	%	No	%	No	%
1	The findings of the internal audit (i.e. audit reports) are prepared on timely basis.	56	70	19	23.8	5	6.2
2	The recommendations of internal audit are easily implemented.	55	68.8	16	20	9	11.2
3	The recommendations of internal audit department provide practical, cost benefit solutions for correcting the problems that were found.	50	62.5	20	25	10	12.5
4	Internal audit reports are clear and well presented.	51	63.8	16	20	13	16.2
5	Audit findings and conclusions communicated promptly to management	57	71.2	10	12.5	13	16.2
6	Internal auditors follow up implementation of corrective actions relating to audit findings and recommendations.	55	68.8	17	21.2	8	10
No	Descriptions	Response Frequency (N=40 ^{**})					
		No		%			
7	What is the frequency of reporting internal audit reports?						
	 Semi annually	9		22.5			
	 Quarterly	6		15			
	 Monthly	34		85			
	 As per needed	15		37.5			
8	To whom internal audit reports reported to?						
	 Top management/directorate	40		100			
	 Others	40		100			

Source : survey Questionnaire, 2012

**** indicates the respondents are managers (n=7) and internal auditors (n=33)**

5. CONCLUSIONS AND RECOMMENDATION

5.1. Conclusion

Internal auditing activity as it relates to corporate governance is generally accomplished primarily through participation in meetings and discussions with members of the Board of Directors and other concerned bodies. This study evaluated effectiveness of the internal audit service of large public sector regional bureaus, to investigate internal audit effectiveness, using a standards developed for the analysis. The standards consisted of thirteen variables: scope of internal audit work, internal external auditor's relationship, access to audit evidence, stakeholders support, existence of audit committee, compliance with international professional standards, audit planning and execution, audit performance and quality assurance, reporting and follow up, risk analysis, internal audit proficiency, existence of formal mandate, and independence and objectivity. Based on the analyses of information presented above, the following findings were noted.

The research revealed that the structure of internal audit had insufficiency in providing adequate independence and objectivity (50%). The main reason for this is that whenever the internal audit finds out corrective actions, the management involves directly or indirectly and then the report goes to this management unit as well. The corrective action, therefore, falls in danger so that the findings may be filtered by management. This implies that internal auditors did not have adequate guarantee for the work they have performed in relation to audit execution of the organization. In relation to objectivity of individual auditors, there is no rotation of assignments of auditors (66.3%) which could be one means of conflict of interest and might expose auditors for impairment of objectivity.

The internal audit office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the Management. The study revealed that many (50%) of respondents agreed that their internal audit department had not enough number of staffs to successfully carry out its duties, which indicates most internal audit departments have been handicapped by shortage of man power. Majority of respondents (70%) also replied that their audit department has not internal audit staffs that possess knowledge and skills in a variety of areas (beyond accounting and finance). This has

affected the internal audit department in conducting performance audit whether activities performed are cost effective, efficient and accomplished as intended. The result also indicates that in most internal audit department internal auditors did not undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses) (80%); there is no adequate short-term and middle-term training arrangement for internal auditors each year (57.5%) and no sufficient salary that can retain exiting staffs and attract new competent professionals (87.5%).

The internal audit office has not audit committee (100%) which again has a bad effect in achieving proper independence and objectivity and assuring the effectiveness of day today performance of the internal audit activity and communication with the concerned stakeholders on how to improve the functioning of internal audit department in specific and the organization in general. All the respondents were in need of setting up of audit committee.

Regarding reporting and follow-up, the internal audit office reports to the top management (100%) and this hinders the auditors in performing their activity independently and with confidence due to presence structural problem of reporting relationship. The corrective action, therefore, falls in danger so that the findings may be filtered by management.

Furthermore, there was no mechanism in place to strengthen the relationship between internal and external auditors. The internal audit office did not gain proper relationship with external auditors in the matter that two-way communication on mutual interest (65%), arrangement of discussions on how to improve internal audit service (62.5%). No effort is made to integrate and coordinate internal and external auditors to increase internal audit performance in line with the envisaged governance structure.

This study also discovered that there has not been adequate support from audited departments. This shows, even though the internal audit department tries to develop and manage appropriate relation with its key stake holders, majority of Auditees did not see that the audit service can add value to their activity and they provide less support to the department (52.5%). Mostly, auditees saw auditors as fault finders and see them as an enemy. In addition, the lack of attention by

management may send a wrong signal about the importance of internal audit services to the Auditees, which in turn adversely affects the auditees' attributes.

The scope of internal audit services is limited to the audit of regular activities. There was no adequate performance audit undertaken in the organizations (70%). Internal auditing frequently involves measuring compliance with the entity's policies and procedures and verifying accuracy of financial documents.

As far as adoption of quality assurance and improvement programs concerned, internal audit department did not survey its key stakeholders upon the completion of audits and other projects how the quality is effective (55%), and also the internal audit department did not undertake an external quality assessment review of its overall effectiveness (55%).

Though most internal audit departments receive Audit Charter, still they are performing their activities by using government laws and regulation (70.73%) which is not mostly in line with international professional standards. Most internal audit departments are not aware regarding the Audit Charter. Most auditors are not cognizant of any internal audit standards as a result they are dependent on the audit manual of the organization which in turn can stifle their capacity to think beyond procedure in a situation when they encounter professional ambiguities. It was also assessed that all audit functions that were approved in auditing plan has not been completely implemented due to lack of adequate budget (2.5%), lack of adequate and competent man power (27.5%), inadequate support from Auditees function and Auditees' non-readiness (50%).

2. Recommendations

Based on the findings of this study, the following policy measures could be recommended, because there is a need for the promotion of increasing the internal audit service in public organizations.

A) Extending the scope of internal audit services: it is possible to improve audit effectiveness by widening the range of systems and activities audited with appropriate risk analysis. Internal auditors should analyze the efficiency and effectiveness of the overall activities of the organization (i.e. performance audit). As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

B) Increase technical proficiency of the internal audit staff and minimize staff turnover:

The findings of the study reveal that the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness. This can be achieved through increasing the number of auditors in relation to work load; employing auditors who have different backgrounds of knowledge and field of study, providing training (i.e. short term and middle term training); engaging auditors in continuous professional education, and increasing the salary and other benefits to internal auditors.

C) Enhancing proper relationship with key stakeholders: Awareness creation should be given especially, for internal key stakeholders as the presence of internal audit service in the organizations could add value to their function and the overall success of the organization. In addition, lack of attention by management may send a wrong signal about the importance of internal audit services to the auditees, which in turn adversely affects the auditees' attributes. So, the top management should have high concern and help in fostering effectiveness of IA department. A team spirit, with staff understanding the aims of modern IA and embracing the ethics, should be built.

D) Establishment of audit committee for internal audit department. This will enhance effective audit performance measures and provide adequate independence and objectivity for internal auditors and also it builds up the confidence of internal auditors in performing their activities.

E) Arranging proper linkage with external auditors: The relationship between internal and external auditors should be strengthened by taken into account their different roles and responsibilities and keeping their independence. This will result improvement performance of both auditors and the organization as a whole. There should be a two-way communication, consultation and arrangement of special discussion regarding sharing of necessary documents and special abilities.

F) Place the appropriate reporting line of internal audit department: The current structure of internal audit department does not allow adequate independence to internal auditors. So as to provide sufficient independence and objectivity of internal audit staff in disclosing accurate findings of the overall activities of the organization, the head of internal auditors should not be functionally responsible to the top management, rather to audit committee or to any other

overseeing body out of the management. It is recommended that the chief audit executive should report directly or functionally to the audit committee or other appropriate governing authority, and administratively to the chief executive officer (CEO) of the organization.

In connection with independence of internal auditors, the objectivity of the individual auditors should also be maintained through rotating the assignments of internal auditors could be one measure in avoiding conflict of interest and quality compromises and should be implemented by internal audit heads in the organizations whenever practicable to do so.

G) Put into practice quality assurance and improvement programs: The head of internal auditors should develop questionnaires and distribute to Auditees up on completion of audit work to get their view regarding the performance of internal audit work. The internal audit department should also allow external bodies including external auditors to supervise how much the internal audit work is satisfactory. These could be undertaken periodically or in continuous basis.

H) Alleviating impeding factors related to audit execution: As revealed by the study, there is low budget allocation, staff inadequacy in number and competency, inadequate support from auditees and non-readiness of auditees. So, there should be enough allocation of budget, making the internal audit staff adequate in number and competency and making Auditees aware regarding preparation of documents and other necessary evidences before the arrival of execution of audit work.

References

- Ahmad, NasibahHalimah and OthmanRadiah and K. Jusoff,(2012). The Effectiveness of Internal Audit in Malaysian Public Sector. *Journal of Modern Accounting and Auditing*, 5(9); pp. 53-62, ISSN 1548-6583. Available at: <https://ssrn.com/abstract=2162236>
- Chambers, A. D., Selim, G. M. andVinten, G. (1995). *Internal Auditing*. London: Pitman.
- Controller General Accountant (2006). Seminar on Improving the Effectiveness of Internal Audit in Government of India at Hotel Le Meridian, New Delhi-pp.1-38
- Cohen, A. and Sayag, G. (2010). The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations.*Australian Accounting Review*,20 (54), 296-307, Issue 3 2010

- De Beelde I. and Sarens, G. (2006). The relationship between internal audit and senior management: A qualitative analysis of expectations and perceptions. *International Journal of Auditing*, 10, 219-241.
- Deloitte and Touche LLP Internal Audit Professional. (2005). *Optimizing the Role of Internal Audit in the Sarbanes-Oxley Era*
- Dessalegn, G. M. and Aderajew, W. Y. (2007). internal audit effectiveness: An Ethiopian public sector case study. *Managerial Auditing Journal*, 22 (5), 470-484. ISSN 0268-6902.
- Ernst and Young LLP and Tapestry Networks (August 2011). Internal audit's evolving role: a proactive catalyst of business improvement. The sustainability journey: from compliance, to opportunity, to integration, Insights. http://www.tapestrynetworks.com/upload/Tapestry_EY_ACLN_InSights_Apr11.
- Fewzia, R. (September 2010). Co-operation between Internal and External Auditors: A Comparative Study on Nationalized and Foreign Banks in Bangladesh, *World Journal of Management*, 2(2), 22 – 35.
- Goodwin, J. and Yeo, T.Y. (2001). Two factors affecting internal audit independence and objectivity: Evidence from Singapore. *International Journal of Auditing*, 5, 107-125.
- Government Accountability Office U.S. (1999). *Standards for Internal Control in the Federal Government*, Washington, Government Printing Office, GAO/AIMD-00-21.3.1.
- Government Internal Audit Standards (2011). *Government Internal Audit Standards* http://www.hm-treasury.gov.uk/d/internalaudit_gias_0211.pdf
- Gramling, A. A. & Myers, P. M. (2006). Internal Auditing Role in ERM. *Internal Auditor*.
- Institute of internal Auditing (IIA) (2007). *Internal Audit Framework*. Available at: www.treasury.act.gov.au/accounting/.
- IIA (2006). *The Role of Auditing in Public Sector Governance*. Available at: www.theiia.org.
- IIA (2000). *Code of Ethics*. Available at: <http://www.theiia.org/guidance/standards>.
- IIA (1999). *Definition of Internal Auditing*. Available at: <http://www.theiia.org/guidance/standards-and-practices/professional-practicesframework/>.
- IIA (2007). *Standards for the Professional Practice of Internal Auditing*. Available at: <http://www.theiia.org/guidance/standards-and-practices/professional-practices>.

- Institute of Internal Auditors (2004). The Role of Internal Audit in Enterprise-wide Risk Management. Available at: <http://www.theiia.org/guidance/standards-andpractices/position-papers/>.
- Institute of Internal Auditors (2006). The Role of Auditing in Public Sector Governance. Available at: <http://www.theiia.org/guidance/>.
- Institute of internal auditor's ISPPFIA (2010). Practice guide Measuring Internal audit effectiveness and efficiency. Available at: www.theiia.org/guidance.
- International Professional Practices Framework (2004). International Standards for the Professional Practice of Internal Audit , Altamonte Springs, FL, IIA Inc. Implementation Guidelines for Performance Auditing,Stockholm .
- Institute of internal auditors (2001). Standards for the Professional Practice of Internal Auditing: 247 Maitland Avenue Altamonte Springs, Florida 32701-4201.Available at: <http://www.theiia.org/iaa/index.cfm>.
- Institute of Internal Auditors (2010). Characteristics of an Internal Audit Activity (Altamonte Springs, FL: Institute of Internal Auditors, 7.
- Institute of Internal Auditors, Practice Advisory 1110-2: Chief Audit Executive Reporting Lines (December 2002). Internal audit's role in modern corporate governance.
- IIA Survey (2010). Core Competencies for Today's Internal Auditor<http://www.theiia.org/bookstore/product/core-competencies-for-todays-internal-auditor>
- Karagiorgos, Th. (2009). The Contribution of Internal Auditing to Management.International Journal ofManagement Research and Technology, Serials Publications, 3(2), 417-427.
- Karagiorgos, Th., Drogalas, G. and Giovanis, N. (2011). Evaluation of the Effectiveness of Internal Audit in Greek Hotel. Business International Journal of Economic Sciences and Applied Research, 4 (1), 19-34
- Ljubisavljević, S. and Jovanović, D. (2011). The internal Audit position of companies in Serbia economic annals. An Empirical research, LVI (191) /UDC: 3.33 ISSN: 0013-3264.
- Ministry of Finance and Economic Development (MoFED,2005). Internal audit manual and training module, Addis Ababa, Ethiopia

- Nordin, C. and Gansberghe, V. (2005). Internal Audit Finding Its Place in Public Finance Management ,Washington, D.C. 20433, U.S.A. Available at: <http://www.worldbank.org/wbi/governance/pefa/index.html>
- Office of audit General of Canada (1992). Internal auditing in a changing Management culture. A research study,pp-1-56,Cat.No.FA3-11/1992,ISBN:0-662-59365-0.
- Staciokas, R. and Rupsys, R. (2005). Internal Audit and its Role in Organizational Government. Available at: <http://proquest.umi.com/pqdweb>.
- Savcuk, O. (2007).Internal Audit Efficiency Evaluation Principles. Journal of BusinessEconomics and Management, 6(4), 275-284.
- Subramanian L., N. and Stewart, J. (2008). Internal audit independence and objectivity: a review of current literature and opportunities for future research working paper. Griffith University.
- Stimson, W. A. (2001). Internal Quality Auditing: Meeting the Challenge of ISO 9000:2000, Paton Press.
- Shewamene, H. (June, 2014). Determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices. Msc. Thesis, Jimma University, Jimma, Ethiopia
- Tarekegn T. E. (2015). Determinants of Internal Auditor's Effectiveness: Case of Ethiopian Public Sectors.International Journal of Advances in Management and Economics Vol.4, Issue, 5:73-83 ISSN: 2278-3369: Available online at www.managementjournal.info
- Țurlea, E. and Ștefănescu, A. (2009). Internal audit and risk management in public sector Entities, between tradition and actuality,AnnalesUniversitatisApulensis Series Oeconomica, 11(1), 210-216.
- Vasile, E., Croitoru, I. and Gherghelas, N. A. (2011). Internal Auditing and Risk Management: Functional and Procedural complementarily between Internal Audit and Public internal audit, Annul VI, Nr.1 (21), 1-10