



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MASTER OF SCIENCE (MSC) IN
DEPARTMENT OF ACCOUNTING AND FINANCE**

**THE ROLE OF INTERNAL AUDIT IN ENSURING EFFECTIVE FINANCIAL
CONTROL IN ETHIOPIA**

**A RESEARCH PROJECT FOR THE PARTIAL FULFILLMENT OF THE
REQUIREMENT OF ACCOUNTING AND AUDITING (MSC.)
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ADDIS ABABA, ETHIOPIA**

DECLARATION

I undersigned declare that this research report is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

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Abstract

Internal audit is important as an essential internal assurance mechanism in controlling procedures designed to protect assets and ensure that all financial transactions are recorded to prevent and reduce errors and fraud in budgetary Public sectors. This paper assesses the role of internal auditors in ensuring effective financial control Ethiopian budgetary sectors. The study employs a cross sectional survey to investigate the role of internal audit in ensuring effective financial control and descriptive statistic will be used to analyze the data from the survey. The methodology employed for data collection is primary source and secondary source. Primary source involves the questionnaires, in which 68 questionnaires will administered to the staff of Accounting and Internal audit department of 17 Ministries from a total of 25 Ministries. The data to be generated for the study will be interpreted using simple percentage and mean. The data from the secondary source is internal audit report and office of federal auditor general report that deal with internal audit from 2013-2016.

Key word: Internal Auditors, Financial Control and budgetary public sectors.

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List of acronyms and abbreviations

IAG	-----	The International Auditing Guideline
COSO	-----	Sponsoring Organizations of the Treadway Commission
SAP	-----	System of Auditing Procedure
IPPF	-----	International Professionals Practices Framework
IIA	-----	Institute of Internal Auditors
ISA	-----	International standard on Auditing
SAS	-----	Statement of Audit Standards
AICPA	-----	American Institute of certified Public Accountant
ACFE	-----	Association of Fraud Examiners
MoFEC	-----	Ministry of Finance and Economic cooperation
APBG	-----	Auditing Practices Board Auditing Guidelines
IA	-----	Internal audit
ISPPIA	-----	International Standards for Professional Practice of Internal Auditing
OFAG	-----	Office of the Federal Auditor General
CIPFA	-----	Chartered institute of public finance and accountancy
SIAS	-----	Statement on Internal Auditing Standards
CIMA	-----	Certified Institute of Management Accountant
PCAOB	-----	Public Company Accounting Oversight board
ACCA	-----	Association of chartered certified accountant
CIA	-----	Certified internal auditor
CMA	-----	Certified Management Accountant
CPA	-----	Certified Public Accountant
IIAM	-----	Institute of Internal Auditors Malaysia
SPSS	-----	Statistical Package for Social Sciences
IFAC	-----	International Federation of Accountants
CB0s	-----	community based organizations

CHAPTER ONE

1. Introduction

1.1 Background of the study

The public budgetary sector offices are the key channel for a country economic development due to their commitment in a number of social and economic operations; such as in Health service, environmental safety service, Education service, Poverty reduction, water supply, irrigation and drainage development and power, transport and communication services, financial service, construction service, tourism industry service and the like. These sectors involved in collecting and spending hundreds of billions birr of public money through the various ministries and agencies to achieve growth and Transformation plan of government activities. This revenue and expenditure contributes a large share for economic growth of country and demand efficient and effective financial management procedure to functioning with accountability and practicing according to rules and regulation prepared by MoFEC.

To bring efficiency and effectiveness in economic activity the performance of the public-sector management has a duty to frequently measure and appraise to take remedial actions if problems, for example fraud, and ineffective financial control encountered. There are many irregularities leading to public objection and there is increasing fraud in government activities resulting from an insufficient control of public finance and implementation mostly in African content like Ethiopia. Public sectors fail in attaining their objectives thereby leading to fail of `confidence in internal and external activities in the economy(Sunday, 2003).

The global financial and economic crisis the world face requires deep reflection and appropriate behavior regarding the creation and use of public funds. Collecting and efficient use of public funds is a prerequisite for sustainable development and for economic and financial reform success. Budgetary funds allocated to public entities are not so comfortable to allow them spent without any restrictions. This should be a call to reflection and to identify the most appropriate ways of using available resources without the need to escape from development and performance. A significant contribution to protecting the financial resources, and the management and use of financial resources of the state and the public sector is public audit(Alexandra, Maria and Mihai,2013)

The business world is developing so in the complex nature of the organizations. This complexity of modern organizations and hence the management has led to the much broader role at the internal audit. The role of internal audit is fast moving from mere checking of documents and physical duties to analyzing the ability of organization to react to changing circumstances. Auditing for the public sector is aimed at prevention of mistakes, shortcomings and misdeeds in the public administration. The internal audit has become a good control measures that can foretell all the incidence of fraud and misappropriation of fund in Government Ministries if properly put in place.

Public sector managers operate in a complex and challenging environment. This, in part, reflects the evolving demands and expectations of the community, government and the Parliament. Internal audit is an important element of the range of resources and mechanisms available to public sector managers to assist them to meet their responsibilities within this environment (Anao, 2012). Internal audit provides an independent and objective review and advisory service to-provide assurance to the Chief Executive and/or Board that the entity's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective, economical and ethical manner; and assist management in improving the entity's business performance.

Auditing is the examination of accounting records with a view to ascertaining their accuracy and compliance with relevant statutory provisions, accounting standards, professional pronouncements, and the organizational policies. Internal audit is expected to be independent and directly responsible to the chief executive. The unit should be properly organized, adequately staffed and equipped to be able to effectively perform its functions (Sabari, 2003), (Dandago, 2000) and (Sunday, 2003). These should include periodic surprise cash survey in all sections of the Ministry or local government, checking of revenue collectors' cash books, receipt books and bank tellers, as well as, inventory verification of the store and maintenance of plant registers and ledgers for the purpose of easy location and identification of the assets of the organization (Jocelyn, 2003). The Chartered Institute of Public Finance and Accountancy (CIPFA), as cited by Johnson (1996:47), defined internal audit as "an independent appraisal function within an organization for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal control, financial and otherwise, as a contribution to the efficient use of resources within an organization." Jocelyn (2003:67) traces the definition of internal auditing given by the Institute of Internal Auditors as

“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.

Financial resource is considered as an important resource to many institutions and establishments (Allis, et al, 2004). This means that it must be effectively and efficiently managed to bring about the needed change and results from the activity for which the funds have been made available. However, sometimes this important resource is mismanaged and misappropriated by those put in charge (Rosen & Gayer, 2010). According to Prowle (2010) public sector organizations deal with large amounts of public funds and operate in a largely political environment, thereby necessitating a need for a high degree of confidence in the way in which their financial affairs are being conducted. Furthermore, all other aspects of finance management in the public sector should be done prudently. According to Rosen and Gayer (2010) these feelings towards government are inextricably bound up with its taxing and spending activities.

Financial control is defined as the procedures designed to protect assets and ensure that all financial transactions are recorded to prevent and reduce errors and fraud (Block & Geoffrey, 2008). The aim of financial controls is to provide an overall guiding framework for a sound and efficient management of resources in all institutions. The goal of having a strong system of financial control is to promote the institution’s ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through budget, organizational control and encouraging adherence to prescribed policies and regulations. An institutions system of financial control has a key role in the management of risks that are significant to the fulfillment of its operational objectives. A sound system of financial control contributes towards safeguarding the stakeholders’ investment and the institution’s assets. Financial controls facilitate effectiveness and efficiency of operations, thus helping to ensure the reliability of internal and external financial reporting and assist in compliance with laws and regulations (Hayles, 2005).

Effective financial controls including the maintenance of proper accounting records help ensure that the institution is not unnecessarily exposed to financial risks and that the financial information is used only within the business (Hayles, 2005). This also contributes to the safeguarding of assets, including the prevention and detection of fraud (ACCA, 2010). Walters and Dunn (2001) have stated that obtaining sufficient knowledge of the internal financial

controls, both information technology controls and application controls, are needed to facilitate the determination of the audit strategy and to carrying out subsequent steps. According to Khoove (2010) control environment is the attitudes, abilities, awareness and actions of a client personnel and particularly management in relation to control. Financial control activities are the policies and procedures that help ensure that management directives are carried out (Walters & Dunn, 2001). Control of the financial decisions covering the organization, method, process and internal audit established by the administration in order to ensure that the activities are carried out in compliance with the purpose of the administration and determined policies and the legislation, the assets and resources are protected, accounting records are kept in an accurate and complete manner and financial and management information is produced in line and in a reliable manner.

All the above observations underline the role of internal audit to ensure effective financial control in the public sectors. Even though many efforts to strengthen financial controls and institute good governance at the Federal level and state government levels, the number of fraud cases is still on the rise, in fact becoming more severe – a clear signal that some form of action need to be taken to control this increasing crisis.

To date, besides the OFAG's report (2015) and Federal ethics and anti-corruption commission report (2014), studies investigated the occurrence of fraud due to lack of sufficient financial control. Thus, the objective of this study is to provide the role of internal audit in ensuring effective financial control in Ethiopian budgetary public sectors. The study also aimed to seek the competence, Independence and top management support of internal auditors to identify its effect on internal audit in ensuring effective financial control that must be in place.

1.2 Statement of the Problem

Internal auditing helps to improve governance processes by focusing on how values are established to ensure effective and efficient financial control and management of public sector organizations (Rahmatika, 2014). Thus, internal audit function plays a significant role in promoting good financial control. By detecting weaknesses in management operations, Internal Auditing provides a basis for correcting deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable or are exposed in the external auditor's report (Ejoh, Ndifon Ojong, 2014). According to the Institute of Internal Auditors (1991), the internal audit unit is expected to review the means of safeguarding assets and where appropriate, verify the existence of such assets, ascertain that effective financial control is practiced

The absence of adequate financial control measures exposes the financial management of public sector to certain threats such as incorrect financial statements, loss of government assets, mismanagement of government vital documents, incorrect and unreliable financial records which may lead to loss of government integrity, and implementation of accounting policies inconsistent with the applicable legislation, (John Wachira Solomon Ngahu, Wagoki,2014). The serious deficiency in the financial control systems in most developing countries generally recognized as the major factor which facilitate the misuse of public resources and financial corruption in these countries (El-Nafali, 2008). Gwilliam and El-Nafabi (2002) argued that in general, most developing countries have ineffective government financial control systems. This is responsible for facilitating the misappropriation of public resources and financial corruption in these countries. The lack of adequate auditing and accounting systems in most African countries is exemplified by ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems. This may result in serious organizational problems such as loss of assets, impaired decision making or the breakdown of public confidence. Similarly, this causes inadequate safeguards against corruption, fraud and other related malpractices.

Unegbu, and Kida (2011) realized that, IA can effectively carry out their duty in the public sector if there are enough IA personnel with required competencies. Appah E and Oyadonghan J. K (2011) argued that internal auditors in the public sector in Nigeria is not performing the audit responsibility with all level of professional and technical expertise as expected by the society and wind up this is why there is wide spread misappropriation of public sector funds and massive corruption in Nigeria.

Mu'azu Saidu Badara (2012) argued that Governments' internal auditors lack proper independence in conducting their duties. This is due to the fact that the independent as to verify various records of the various departments and to ensure other control majors in place is very weak. Several recent studies have demonstrated that support for internal auditing by top management is an important determinant of its effectiveness in financial control (Dunfee and Kline 2005). Management and Audit Committee could ignore reports of internal auditors, not granting them the real importance. Reporting the results of the evaluation of management risk was not carried out by the auditors to the management (Alexandra, Cristina Maria, and Ungureanu Mihai, 2013).

Many organizations are rapidly assuming complexity resulting to remarkable reliance to internal audit and management as a wider range area of control. In spite of the existence of internal audit departments in organizations, it is often argued that the rate of fraud and misdeeds is still on the increase, particularly in the public sector. Some people argues that the internal auditors are creating more problems than they are solving, others see it as tools for witch-hunting and therefore sees them as unnecessary evil (Sarens and Beelde 2006).

Here in Ethiopia, in spite of the existence of internal audit departments in public sectors, there are cases of errors and fraudulent activities in public sectors that result from ineffective financial control. For example, the Office of Auditor General 2015 report found a high incidence of inappropriate expenditure, improper purchases, payments and uncollected revenue (Addis Fortune June7, 2015) and the Lideta Federal High Court criminal bench tried 17 criminal suspects, comprising three foreign companies, one Ethiopian company and their employees over a business tax fraud worth around one billion Birr even though internal audit service is practiced (Addis Fortune, March 30, 2015).

All these reviews have implied that, there is a lack of a wide internal audit research, as indicated above, which investigates the internal audit role in insuring effective financial control in public sectors. In case of Ethiopia, reviewing the internal audit literature shows inadequate research on the role of internal audit regarding to insuring effective financial control in budgetary public sectors. As the result, the above international findings may not be applicable in Ethiopia as research methods and results are influenced by and usually reflect economic, social or legal factors unique to those countries in which the studies took place. Thus, this has motivated the researcher to investigate into the role of internal audit in insuring effective financial control on the subject of competence, independence and top management support in Ethiopian budgetary public sectors.

1.3 Objective of the Study

The main objective of the study is to examine the role of internal audit in assuring effectiveness of financial control in public sector. Specific objectives are to:

- Examine how and to what extent internal audit ensure effective financial control.
- Find out if internal auditor ensures effective financial control in Ethiopian budgetary public sectors.

- Find out the contribution of competence of internal audit in ensuring effective financial control.
- Determine if internal audit independence ensure effective financial control.
- Examine the contribution of top management support to internal audit in ensuring effective financial control.

1.4 Research questions

- What are the key role to internal audit in ensuring effective financial control?
- Does competence of internal audit ensure effective financial control?
- Does top management support to internal audit enhance effective financial control?
- Does independence of internal audit enhance effective financial control?

1.5 Significance of the Study

The findings of this study will help a wide range of people. It will enable the governing body, especially the management, and the higher responsible body, and any other organizations in the public sector, to be aware of the important use of internal audit, and gives perception into how they use the internal audit service most efficiently in ensuring effective financial control. Another important significance of this study is that, it will guide the internal auditors in their professional work. It emphasizes the need for internal auditors to approach their work with professionalism, integrity, confidentiality, good ethical behavior, and competencies in order to contribute meaningful realization of the objectives of the organization. Furthermore, the importance of this study will create an environment where management highly supports auditors and upgrade public understanding about huge indispensable audit service in ensuring effective financial control. In addition, it responds to growing public expectations of the accountability of auditors as one of the main actors in ensuring effective financial control.

Finally, the study will forward the general understanding of internal audit role in ensuring effective financial control and form a basis for further research.

1.6 Scope and limitation of the Study

The study focusses on the role of internal audit in ensuring effective financial control would more successful if it will conduct in all public-sector offices. Because of time and financial boundaries, it is difficult to select all public sectors, and due to this the Ministries are selected which are expected to represent all the rest untouched public sectors.

While this study will provide knowledge in the study of internal auditor role and effective financial control, it does suffer from a few deficiencies. The study will assess only auditor competence, Top Management support, and auditor independence regarding to ensuring of effective financial control; it does not consider the role of management and the code of ethics for employees as vital components that may affect effective financial control due to lack of time..

1.7 Organization of the Study

In addition to the preliminary page, this research proposal paper consists of three chapters. The first chapter with its sub topics was introductory parts incorporated the background, statement of the problem, research objectives, research questions, significant of conducting the study, and scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit role internal audit in ensuring effective financial control and the variables which affect the internal audit role in fraud detection and prevention. The third chapter forwards the methodologies to be used to conduct this study and the fourth chapter related with time and budget.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector financial control. The reason is obvious, Government constitutes the largest single business entity and the pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities. As a result of these Government huge involvements in economic activities, initiatives are being taken all over the world towards improvement of the standards of accounting and auditing departments in government (Angus and Mohammed, 2011).

This chapter deals with the review of literature I the area of the study. The review of the related literature is discussed under the conceptual frame work and the theoretical framework, review of empirical studies and gap of literature

2.2 Theoretical Review

2.2.1 Concept of Internal Audit

As cited by Drogalas (2010) historically, internal audit has been considered as a monitoring function, the “organizational policeman and watchdog” (Morgan, 1979) and is tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives. However, Institute of Internal Auditors, IIA, (1991); Taylor and Glezen, 1991; Konrath, (1996) defines internal auditing as “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael et al., 1996), which is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

The main objective of internal auditing is to provide assurance to the management that the internal control system in the organization is sound in design and effective in operation. It also helps to achieve value for money (Momoh, 2005). Okwoli (2004) also shares the view that the present requirement of internal audit is not the detection and prevention of fraud and errors, but reviewing the system of internal control. This is because in public organizations, internal audit is

meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls operating in such ministry. Normanton, as cited in Daniel (1999), emphasizes the importance of internal audit by saying that “without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the government and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every government organization.

2.2.2 Theory of Financial Control

Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organization’s resources, both physical and intangible. These internal control procedures reduce process variation, leading to more predictable outcomes.

The present and future personal functions of human beings are asserted to constitute the fundamental point of reference in a theory of financial controls. This theory stipulates that existing and possible functions of financial tools for organizations are most essential. In the same light, it is stated that, payments, financial instruments, accounting, control models, economic calculations, and related considerations, both within and outside of the organization, ought to be discussed in regard to inner characteristics but also possible effects. It is noted that establishing the relationships between various activities and financial processes, from a financial control point of view, is a general and basic issue (Ostman, 2009).

The International Auditing Guideline (IAG) 6, as cited in Dandago (2000:107) and (Daniel, 1999:33) defines internal control system as “the whole system of control, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records”. This definition reveals that the internal control is established in order to enhance prudent management of resources and transparency in the accounting process. Also, effective internal control requires; appropriate accounting procedure and system, division of duties i.e. separation of responsibilities, especially those of authorization, regular verification of supervision of each person’s work by their superior officers. Oshisami (1993:50) defines internal control system as “the managerial functions of

defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organization”.

The System of Auditing Procedure (SAP) 33 of the American Institute of Certified Accountants, as cited in Daniel (1999:43) defines internal control system as “the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies”. The adherence to prescribed managerial policies in order to promote operational efficiency The above definition of internal control brings out, in clear terms that the internal control extends beyond financial and accounting matters, on the custody of the organization’s assets. In its broad sense, it includes all the controls operated by an organization to facilitate its activities and improve its efficiency and productivity. It also includes all administrative controls designed to effect, supervise and check management policies and strategies within an organization such as organization and method, work study, production control, marketing, selling and distribution, financial and accounting control.

The theory of financial controls for organizations places a natural focus on the firms such that they are viewed from several latitudinal areas. The first regards the human beings’ functions of what is accomplished through organizations, their activities and output. The second is about the structure of the organization and activities, and of transactions that various parties have with each other. The third area covers the control systems in the sense of recurring procedures and methods that are employed to relate present and future functions to resources both externally and internally. The aforementioned financial control tools are argued to be crucial from an individual organization’s perspective and also for larger economic systems. The fourth and last area illustrates the specific processes of individual organizations for certain issues. The theory further states that structure and financial control system works together (Ostman, 2009). The financial control theory is very relevant to the current study given that it assists in better understanding of the intricacies surrounding financial management in an organization.

Financial controls have played a major role in moderating the agency problem in corporations for many years. During the 1980s, several high-profile audit failures led to creation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), organized for the purpose of redefining internal control and the criteria for determining the effectiveness of an

internal control system (Simmons, 1997). The product of their work is known as the COSO Internal Control-Integrated Framework (Simmons, 1997). The framework also points out that controls are most effective when they are “built into” the entity’s infrastructure (COSO, 1992) and further states that “built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. The COSO framework plays a key role in compliance because Section 404 of the Act requires companies to include in their annual report, a separate management report on the company’s internal control over financial reporting and an attestation report issued by a registered public accounting firm. Morris (2011) separates financial controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management was overriding control features in order to manage earnings, then one would expect to find more financial control weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behavior should be uncovered during the audit process since this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that “entity-level controls include controls over management override.” On the other hand, a stronger argument could be made that if general controls are in place and working, then one would expect to find less Internal Control Weaknesses related to general controls. Internal controls have been incorporated into policies, rules and regulations to help organizations achieve their established objectives. This is because internal controls are meant to help an organization achieve its objectives. The COSO commission was partly instituted in response to a series of high profile scandals and business failures where stakeholders (particularly investors) suffered tremendous losses.

2.3 Empirical Review

2.3.1 The Concept of Financial Control

Financial controls entail special purpose accounting tools which are systematically structured to prevent and detect fraudulent activities in the process of accounting for financial transactions (Oyadonghan, 2008). Robertson (1996) sees financial control as yardstick to ensure financial statements are complied with statutory recommendations, regulations and standards set up for effective operations. According to Adams (2014), financial control consists of both revenue control and expenditure control. The paper sees revenue control as the series of coordinated activities that should be embarked upon so that the streams of income accruing to the company

remained unaltered if such income cannot be increased. While expenditure control is the stream of coordinated actions that should be carried out to ensure that all expenditures are wholly, reasonably, exclusively and necessarily incurred for the purpose for which they were meant for. Robertson (1996), views financial control as the entire policies and procedures an organization uses to prevent, detect and correct errors, irregularities and fraudulent activities that might get into financial reports.

Oshisami (1993:50) defines internal control system as “the managerial functions of defining and allocating responsibilities and identifying line of reporting that encompass all aspects of operations for the attainment of corporate objectives of an organization”. The objective of internal control system can be deduced from the definition of internal control system. However, the public sector internal control standard (1998) and Okwoli (2004) identify the following objective of internal control system; to ensure that correct procedures are established, maintained and followed so that the financial and management data disclose through timely report, to safeguard the organization’s asset against obsolescence and deterioration, to improve the organization’s efficiency in line with stated objectives, to ensure that everybody in the organization follows the relevant laws, regulations, policies and stated directives, to ensure the completeness, accuracy and reliability of all records.

Financial control activities refer to all policies and procedures adopted by the management of an entity to aid in achieving management objectives. Financial control system provides assurance to the management of the reliability of accounting data employed in making decisions. Decisions made by management are said to become organization’s policies and to be effective, the policies ought to be communicated to all pertinent stakeholders in the organization and consistently followed. According to the statement on auditing standards (SAS, 2002) control activities are the policies and procedures that help ensure that management’s directives are carried out. Crawford (2000), states that until recently, this has been the historical component of internal control.

Jajo (2005) asserts that control activities can be categorized as authorization, segregation of duties, record keeping safeguarding and reconciliations and these controls depend greatly on the activity under consideration. Hubbard (2003) argues that a great deal of activity specific knowledge is required to determine what controls should be. COSO lists some complete frameworks and can be used to model control activities such as; control objectives for

information technology, system's assurance and control, total quality management and system development life cycle depending on the activities involved. According to Warren (2003) control activities usually involve two elements; a policy establishing what should be done and procedures to effect the policy. Gwilliam and El-Nafabi (2002) argue that in general, most developing countries have ineffective government financial control systems. This is responsible for facilitating the misappropriation of public resources and financial corruption in these countries. The lack of adequate auditing and accounting systems in most African countries is exemplified by ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems. This has led to inadequate safeguards against corruption, fraud and other related malpractices. In Nigeria's public sector, policies are not adequately followed. Owizy (2011) assessed the effectiveness of internal control in government ministries taking a case of Benue State ministry of finance. According to the study findings, it was established that Benue State ministry of finance prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness. Consequently, it was recommended that, the ministry of finance should strictly abide by the principles and procedures in order to ensure that slack is built into the budget. According to El-Nafabi (2009) when studying the role of public sector audit and financial control systems in Sudan, found that audit and control system is paramount in ensuring accountability for the use of public funds, and safeguarding the limited public resources against corruption and other misappropriation and unlawful practices. The study found out that weak and ineffective financial control systems and deficiencies in accounting systems are some of facilitating factors of financial corruption in Sudan. Alin et al. (2006) argued that financial control is achieved by designing systems and procedures to suit the specific needs of an organization. Just like in public sector's organizations, for there to be financial control and accountability of NGOs, it is crucial that an overall financial policy be put in place. In order to have effective financial control, a firm's staff and other stakeholders are supposed to be privy with and participate in the budgeting process that affects the line items for which they are held responsible (Vincent & Emil, 2000). Wanyama (2001) studied the sustainability of CBOs in Western Kenya and found that many CBOs do not have qualified personnel, lack sufficient resources, have inefficient systems in place, and have egocentric and corrupt officials. To aggravate the situation, they are financially incapacitated to outsource auditors. Factors influencing financial control practices in community based organizations (CBOs) in Baringo County, Kenya have also been analyzed (Koitaba, 2013).

The findings indicated that majority of the CBOs in the County were audited annually. However, the study suggested that there was need to ensure compliance among those to be subjected to audit at least once a year. It was further recommended that standardized accounting and reporting should be provided by the government so as to enable tractability of CBOs' financial activities through information sharing on a common and acceptable platform.

Financial control activities are the policies and procedures that help ensure that management directives are carried out (Walters & Dunn, 2001). Control of the financial decisions covering the organization, method, process and internal audit established by the administration in order to ensure that the activities are carried out in compliance with the purpose of the administration and determined policies and the legislation, the assets and resources are protected, accounting records are kept in an accurate and complete manner and financial and management information is produced in line and in a reliable manner (Khoove, 2010).

In both the developed and developing countries public financial management professionals working within the public sector are concerned with improving financial management and budgeting, responding to changes in financial reporting, securing better regulation, strengthening institutions and improving management and governance and auditing fraud and corruption. Financial management consists of all the activities concerned with obtaining money and using it effectively and efficiently (Warren, 2005). Financial management involves careful planning and efficient use of resources. Proper financial management can ensure that financial priorities are established in line with organizational goals and objectives, spending is planned and controlled in accordance with established priorities and sufficient financing is available when it is needed both now and in the future (Pride, 2002). It's generally recognized that most developing countries have ineffective governmental financial control system. The serious deficiency in the financial control systems in most developing countries generally recognized as the major factor which facilitate the misuse of public resources and financial corruption in these countries (El-Nafali, 2008).

Effective financial controls including the maintenance of proper accounting records help ensure that the institution is not unnecessarily exposed to financial risks and that the financial information is used only within the business (Hayles, 2005). This also contributes to the safeguarding of assets, including the prevention and detection of fraud (ACCA, 2010). Walters

and Dunn (2001) have stated that obtaining sufficient knowledge of the internal financial controls, both information technology controls and application controls, are needed to facilitate the determination of the audit strategy and to carrying out subsequent steps.

Buhari (2001) defined financial control as “the process of ensuring that cash and other financial resources of government are in accordance with the legislation, regulation and accounting manual which constitute legal and administrative framework of a particular entity”. Anfayo (1994:60), defined financial control as “a process of assuring that cash is used properly and for authorized program, i.e. involves observation and measurement by comparing actual performance against the planned and correcting variances.

Adams (2004) and (Mainoma, 2007) defined financial control as “the steps taken to ensure maximum safe custody of financial resources in order to avoid waste, misuse, embezzlement, misappropriation or illegal disposal of public finance”. Government enforces financial control through the use of such instruments like civil service rule, financial instrument, financial memorandum, treasury accounting manual, financial regulation, etc.

When these documents are issued, it is expected of all arms of public service to comply and be guided by them (Akpata, 2001). Anfayo (1994), said “financial control is an essential element that requires due consideration in the public sector, because no organization can function effectively without a sound and effective financial control in their operational activities”. In view of the above, we can understand that financial control is very important in organization operation because it concerned with the steps taken to ensure maximum safe custody of financial resources.

Financial discipline is the judicious allocation and utilization of scarce resources to ensure that benefits accrue from any activity undertaken. It focuses on ensuring that funds are only expended on activities (projects) from which benefits accrue. The essence of financial discipline is to ensure accountability and prudent utilization of scarce financial resources. Without a disciplined financial set-up, businesses are bound to fail. Financial discipline entails the following; Prudence in spending, ensuring proper expenditure control, blocking all leakages and eliminating all sorts of malpractice associated with funds management, ensuring value of money, accountability strict adherence to budget, Review of budget and financial allocation from time to time (Johnson,1996), (Damagun,2003) and (Sani, 2009).

(Adams, 2004), (Buhari, 2001) and (Sani, 2009) agreed that financial control at local government level are of two ways; Internal and External control. Internal financial control includes; issuance of financial authorities e.g warrant, appointment of committee for different service, centralization of all payments to and out of the council, preparation of estimate of income and expenditure for the year and establishment of authority limit. While the External financial control includes; parliamentary control, State/ Federal Government control, control by general public and external auditor control. Local Government service are finance through internally generated revenues, share from the Federation Account, borrowing, leasing etc (Adams, 2004) From the above concept of financial control, it is clear that financial control is all about proper utilization of financial resources in accordance with legislation, accounting manual and even organizational policies in order to avoid waste, misuse, embezzlement and misappropriation of financial resources.

2.3.2 The role of internal audit

Auditors assist decision-makers in exercising oversight by evaluating whether public sector entities are doing what they are supposed to do, spending funds for the intended purpose, and complying with laws and regulations.

The internal auditor will test how well existing internal controls are functioning, and recommend necessary changes and improvements. Ideally the internal auditor will work closely, but independently, with management and the audit committee (if one exists) to strengthen the system of internal controls and adapt it to new risks and changing conditions (Di Napoli, 2010).

According to Di Napoli (2010), the internal auditor's work should focus on areas with the greatest inherent risk of error or fraud. Internal audit functions include:

- Performing examinations of operating and financial controls
- Conducting efficiency and effectiveness reviews
- Conducting reviews of compliance with laws and other external regulations
- Evaluating the design and execution of internal controls.

The Institute of Internal Auditors define the primary role of an internal audit function as providing reasonable assurance to executive management and the Board about the adequacy and effectiveness of the risk management control framework in operation. The secondary role is to

strengthen and improve the risk management and control framework through the promulgation of best practice.

Because internal auditors can make line managers aware of their responsibility; can act as a consultant in monitoring risk, identifies weakness in internal control system, and facilitates the implementation of risk management as well as IA contributes to the appropriateness of procedures and operations of the audited body (Cohen and Sayag, 2010; Arena and Azzone, 2009; Dittenhofer, 2001).

Asare (2009) states that internal auditing as a control measure does not only minimize the opportunities for corruption through the verification of procurement processes but also ensures effective physical monitoring of capital items procured and actual utilization to avoid fraud and abuse. In addition to these, internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management's control practices. In the context of governance, the key activities of internal auditing with respect to control is that to ensure controls in place to address key organizational risks (Hermanson, 2003).

An internal audit function typically evaluates the system of internal control of the whole management process of planning, organizing and directing to determine whether reasonable assurance exists so that objectives and goals of the company will be achieved (Haron, 2009).

Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Prior literature relating to internal audit effectiveness has either focused on the internal audit's ability to plan, execute and objectively communicate useful findings (Xiangdong, 1997; Spraakman, 1997; Dittenhofer, 2001); or taken a broader view and included factors that transcend the boundary of a single organization (Van Gansberghe, 2005). This study attempts to introduce a different perspective for evaluation of internal audit effectiveness by identifying factors within an organization that impact on audit effectiveness. Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a

reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000). Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

Internal audit makes a large contribution to the achievement of company goals, and the implementation of strategies for their achievement (Ljubisavljević & Jovanovi, 2011). In addition, the internal audit function is responsible for reinforcing management and audit committee (Hutchinson & Zain, 2009).

Likewise, internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way be influenced by its work, information, conclusions, and evaluations. In this way the internal audit report becomes a means of communication between internal audit and management, and an important guideline for the successful management of the company (Ljubisavljević & Jovanovi, 2011).

Auditing is a cornerstone of good public-sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public-sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfill each of these roles.

As an essential element of a strong public sector governance structure, auditing supports the governance roles of oversight, insight, and foresight. Because the public sector's success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, public sector audit activities should have the authority and the

competency to evaluate financial and program compliance, effectiveness, economy, and efficiency. Moreover, auditors also must protect the core values of the public sector, as it serves all citizens. IIA, 2002

Normanton, as cited in Daniel (1999), emphasizes the importance of internal audit by saying that “without audit, no accountability; without accountability, no control; without audit, no efficiency; without efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the government and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every government organization.

According to El-Nafabi (2009) when studying the role of public sector audit and financial control systems in Sudan, found that audit and control system is paramount in ensuring accountability for the use of public funds, and safeguarding the limited public resources against corruption and other misappropriation and unlawful practices. The study found out that weak and ineffective financial control systems and deficiencies in accounting systems are some of facilitating factors of financial corruption in Sudan.

2.3.3 Independence of internal audit and Financial control

Independence of auditors either internal or external is mostly linked to freedom from dependence on, or influence or control by, another person, organization, or state (Appah, 2008). Internal auditors work for, and primarily report to higher levels of the audited entity, which in public institutions could be the governing council, boards of parastatals, ministries and departments, depending on the nomenclature of each jurisdiction. Badara and Saidin (2012) mentioned that the concept of independence should be defined clearly based on its related specific area or domain of its application. This is the level of freedom in conducting an independent work of reporting and checking the information in all departments of the public institution for which internal auditors work for and report the findings to its higher level without being influenced by immediate level of management of the audited entity (Al-Shetwi, Ramadili, Chowdury & Sori, 2011; Seol, Sarkis & Lefley, 2011; Leung & Cooper, 2009; Kwanbo, 2009 and Mihret & Woldeyohanes, 2008). The report of the qualitative study of Salawu & Agbeja (2007) revealed that absolute independence of the audit section of public services is an essential tool for effective audit examination which will result into transparency and accountability. Also, Zulkifli, Alagan & Mohd, (2014) found that

absence of sufficient qualified, skilled and competent human capital; lack of independence and objectivity hinders the effective internal audit practices in the public sectors thus resulting into poor accountability and transparent reports.

Independence of the auditor adds credibility to the audit report on which users of the financial information depend to make economic decisions about an entity. Thus, auditor independence is one of the basic requirements to keep public confidence in the reliability of the audit report regarding to financial control. The independence of internal auditors demonstrates the quality of what they will report to decision makers and level of reporting reliability about the operations of public entity. The internal auditors provide assurance about what is being done by management of their entity, either positively or negatively and has to report to higher level of administration of public entity's board of directors or to audit committees which may take responsibility to improve management processes and enhance internal control systems in order to help management achieve the objectives set (Messier, Reynolds, Simon and Wood, 2011).

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009; Belay, 2007; MoFEC, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010).

While the internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001). However, due to an often strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or chief Finance Officer (CFO), it is reasonable to expect that senior management is in a position to exert a significance influence over IA (Sarens and Beelde, 2006; Van Peursem, 2005).

Several studies have identified independence of the internal audit as a key element of internal audit effectiveness (CIPFA, 2006; Ali., 2007; Kuta, 2008; Rahmatika, 2014).

Barry J. Cooper, Philomena Leung and Clive M.H. Mathews (1996) on their study on Benchmarking- a comparison of IA in Australia, Malaysia and Hong Kong found that 51.7 % of Malaysian CEOs and 50.5% Hong Kong CEOs were more assertive in their opinions about IA being an independent evaluation function on the effectiveness of financial management.

2.3.4 Internal audit competence and financial control

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry, A. A. M., Brierley, J. A. &Gwilliam, D. R. ,2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001). Additionally, the critical dimensions of IAF is the quality of its internal auditing staff measured in terms of internal auditors' skill (Seol I., Sarkis J. and Lefley F., 2011; Leung and Cooper, 2009; Seol and Sarkis, 2006). As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor.

The literature reviews specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhancing the auditor's potential, but will also improve the quality of audits produced. Hubbard (2003) argues that a great deal of activity of specific knowledge is required to determine what controls should be.

Gwilliam and El-Nafabi (2002) argue that in general, most developing countries have ineffective government financial control systems. This is responsible for facilitating the misappropriation of public resources and financial corruption in these countries. The lack of adequate auditing and accounting systems in most African countries is exemplified by ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems. This has led to inadequate safeguards against corruption, fraud and other related malpractices. In Nigeria's public sector, policies are not adequately followed.

El-Nafabi (2009) sought to establish the role of public sector audit and financial control systems in safeguarding public funds in Sudan. He alleged that there are a number of factors that encourage financial corruption in the public sector. He asserted that financial control systems and internal check in majority of public sector units are weak and ineffective. This is claimed to be occasioned by a shortage or lack of qualified and trained accountants as exemplified by the allegation that in a public department, all the financial activities of the concerned organization are conducted by one or two employees.

Competency can be relating to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development. Auditors' competency determines the effective auditing in the organization. Competency is measured in terms of academic level, experience, skill and the effort of the staffs for continuing professional development. Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's activities and financial management as well as governance processes.

2.3.5 Top Management Support and Financial control

The support and commitment of management also have the certain impact to make sure IA is functioning effectively. The success of IA function will depend on the strength of management's support for the auditing process. They have to accept the fact that the IA process is just as critical and important activity as any other process within the organization. Some study found that without management approval, support, and encouragement, the IA audit process are likely to face failure and worse – time and money wasted. A Md Ali, A Ahmi and MH Shahdan (2007) on their study on IA in the state and local government of Malaysia found that, the effectiveness of

the IA function in State and Local Government appears to be directly related to the management style of organization heads and their links, relationships and position in the social contract. Some IA function appears to be doing well, the determining factors appear to be the attitude and leadership qualities of the head of an organization and audit reports that are ignored by everyone (A Md Ali, A Ahmi and MH Shahdan ,2007).

The management literature offers ample evidence for the key role of top management support in the success of almost all programs and processes within an organization. Fernandez & Rainey (2006) argued, based on a literature review that top management support and commitment to change play a crucial role in organizational renewal, as senior managers can mobilize the critical mass needed to follow through on efforts launched by one or two visionary thinkers. A number of empirical studies have found top management support for quality to be a key factor in its improvement.

Audit findings and recommendations would not serve much purpose unless management is committed to implement them. Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995). Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditors. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve.

Dessalegn and Aderajew (2007), their Ethiopian higher education case study result shows that management support to IA is considered as one of the determinants of IA 's attributes. They also indicate that audit findings and recommendations would not serve much purpose unless management is committed to implement.

MOFEC (2004), states that heads of internal audit should co-ordinate internal audit plans and activities with the management, other internal auditors, external auditors, and other review agencies to ensure the most effective audit coverage is achieved and duplication of the effort is

minimized. In line with this thought, Van Gansberghe (2005) noted that the IA function should work closely together with operational managers to improve the organization's evaluation of risks and determine its risk appetite to improve its systems, regulations, procedures and the ethical environment.

According to Thompson (2003), internal auditing should not be restricted to financial transaction only. He believes that internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with internal audit, errors are more likely to be discovered in their early stages. Existence of assets is verified so as to protect the assets of the organization, errors in account can be corrected early once detected by the internal auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

Irrespective of the need for internal auditors to have access to the audit committee, the IAF must nonetheless, interact with senior management on a close and regular basis since, the character of the function is determined completely by senior management's resource allocated to it, and the support and credence it gives to the role of organization-wide. Additionally, the involvement of senior management in formulating the work plan is both necessary and unavoidable (a requirement of the ISPPIA), since it is through top managers that internal auditors are empowered to secure access to the various functional departments. Hence, the ease with which internal auditors perform their duties is a reflection of senior

Reporting in the Malaysian public sector, Ahmad et al. (2009) observe management support to be the second highest contributor to internal audit effectiveness, and that with such support, sufficient resources are usually allocated for the function, and its recommendations implemented; whereas without it, a lack of commitment to independence on the part of internal auditors is likely. Further, it is also reported in studies conducted in the public sector that management support has a strong impact upon the effectiveness of the internal audit function, and management support is important as a construct in its own right but also via its links to issues of

resourcing, competence and qualification, and independence (Alzeban and Gwilliam, 2012; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

2.3.6 Gaps in the literature

Limited studies have been conducted in many countries on internal audit role concerning to ensuring effective financial control [For example, John Wachira, Solomon Ngahu, Juma Wagoki, 2014 in Nigeria; El-Nafabi (2009) in Sudan; Petraşcua (2014) in Romania; and Ghazali, Rahim, Ali, Abidin (2014) in Malaysia]. Most of these studies were performed in developed world, and different countries. They were also carried out with different variables, and research methods. These studies motivate researcher to analyze these facts in one geographical or regulatory context for large public sectors. To get an in-depth understanding of these topics, alternative research methods in addition to archival or survey data was requested and used for specific circumstances and countries.

Generally, reviewing of the internal audit literature shows limited research on role of internal audit in influencing the effectiveness of financial control. It has also maintained that internal audit role could contribute in effectiveness of financial control. The review suggests the following gaps in the literature:

- Limited prior research has examined concerning the role of internal audit in effectiveness of financial control in wide public sectors in one geography;
- Limited prior research has examined concerning the role of internal audit in ensuring effectiveness of financial control in budgetary public sectors;
- The limited literature to date largely focused on public sectors in developed economies. As a result, understanding of the global configuration of the role of IA profession in ensuring effectiveness of financial control appears incomplete.
- Different government agencies were not used. This might be useful in order to gain evidences that are more conclusive.
- Calling for more research, which has some relation with my study, on internal audit effectiveness on the subject matter particularly in the public sectors since most of the previous studies give more concerned in the private sectors (Badara, and Saidin,2013).

Thus, this study aims to examine internal audit role in budgetary public sectors against struggling in effectiveness of financial control become necessary to add important contribution to global conclusion.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

The important part of the research activity is to acquire successful research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. It involved a blueprint for the collection, measurement and analysis of data. In this chapter the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, data analysis method, and finally questions to be send to respondents are included.

3.2. Research Design

The study expects to investigate the role of internal audit in ensuring effectiveness of financial control in the selected budgetary public-sector offices. The data to be used to conduct this study will use the primary data through questionnaires. Questionnaires will be distributed to the internal audit directors, senior auditors, Finance directors, and accountants. The study areas will be selected using purposive sampling method from the federal public-sector offices in which internal audit has crucial role in ensuring effectiveness of financial control. Secondary data will obtain from internal audit report and audit working paper, financial control system and Office of auditor general audit report that concerns internal audit activity. The audit report of both external audit and internal audit from year 2013 up to 2016 were used to analyze the variables.

3.3. Sampling Techniques

The target populations for this research are the Federal Ministry offices. The total population number is 25 Ministries. Due to the difficulty of covering the entire total existing budgetary public sector, the researcher obliged to minimize its study area by focusing only on 17 Ministries purposively selected public-sector offices that are expected to be used as a representative of other sectors. The researcher focusses on these public sectors which have sufficient (7 internal auditors according to organizational structure) internal audit staffs, financed by big budget (as compared with other sectors), homogenous, very popular (in providing popular service) in nature and have greater impact to influence the country's overall social, political and economic issues. From these sectors audit directors, senior auditors, finance directors and accountants were also

purposively selected as they know more about internal audit and effective financial control than any other staffs.

The use of purposive sampling enables generating meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants (Carver 1978; Cohen 1990; Neuman 2006; Patton 1990).

3.4. Sample size

Based on the scope identified, the researcher study has the population of 25 of public sector offices and Population in terms of respondents is 100 (four people from each 25 sectors) based on their services rendered to the public and the researcher focused on 17(seventeen) public sector offices purposively. The questionnaires will be distributed for these selected public-sector offices to get appropriate responses. To obtain the adequate responses through questionnaire the researcher believes that distributing the questionnaire for one audit director, one senior auditor, one accountant, one finance director, and in total four respondents from each selected ministry, thus a sample population is 68 respondents. Even if the use of proportional sampling is appropriate in order to obtain a representative sample from each sector; because of the samples selected from the population have not equally selected /not equally important/ the use of purposive sampling is more essential to obtain a typical and representative of the whole universe (Kothari, 2004).

The purposively selected Federal Ministries and Public Universities from the population are:

1. Ministry of Industry
2. Ministry of water, Irrigation and Electricity
3. Ministry of Health
4. Ministry of Livestock and Fishery
5. Ministry of Mines, Petroleum and Natural gas
6. Ministry of Federal affairs
7. Ministry of foreign affairs
8. Ministry of construction
9. Ministry of Urban Development and Housing
10. Ministry of Finance and Economic Cooperation
11. Ministry of Science and Technology
12. Ministry of Trade

13. Ministry of culture and tourism
14. Ministry of Education
15. Minister of Communication and Information Technology
16. Public Enterprises Minister
17. Minister of Labor and Social Affairs

3.5 Data Collection Procedures

These are the steps/process used by the researcher while collecting data using the collection instrument. Questionnaires will be distributed to the respondents. These questionnaires are going to be delivered by hand to the respondents at their duty stations during working hours personally. They are expected to be issued and collected within three weeks to give respondents enough time to answer the questions.

Upon collection, the questionnaires of Primary data, will be coded. They are then fed into Statistical Package for Social Sciences (SPSS) version 20.00. Case summaries will then be generated to check for any errors in data entry. Exploratory data analysis will be conducted to determine the effect of any outliers and missing entries. Frequencies, percentages and means will be generated for each variable namely: independence, Competence, and top management support against fraud.

3.6. Data Collection Instrument

The primary data will be employed to accomplish the study, and to collect the data from the respondents to be included in the sample questionnaires. The questionnaires will be distributed to the Finance director, accountants, audit director and senior auditors of the public-sector office. The type of questions that will be distributed to the accounting section and audit section are the same. The questionnaires are about the competence of IA, independence of internal audit and top management support.

The instrument included closed and open-ended questions in order to provide both, the possibility to express opinions freely as well as a useful framework for answers. The instrument consisted of 3 open and 9 closed questions for the variables. All interviewees have the chance to explain their answers to closed questions as well.

In addition, questionnaires are in the form of Likert-Scale type that shows respondents' agreement or disagreement by constructing a five-point scale where the lowest scale represents strongly disagree and the highest scale represents strongly agree (Likert, 1932). The

questionnaires were adopted and modified from the prior authors and literature review (Hamid, 2012, Mihret and Yismaw, 2007; Baharud-din, 2014). The questionnaires distributed to the respondents were organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the competence of IA, independence of internal audit and fraud risk assessment by IA. Secondary data obtained from internal audit report and audit working paper, Internal control system, and Office of Auditor General Audit Report that concerns internal audit activity.

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

4.1 Introduction

As indicated in the previous chapter, the main attempt of this study is to investigate the role of internal audit in ensuring effective financial control in budgetary public sectors. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from accountants and internal auditors of the public-sector offices covered in the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education. Wherever applicable, tables, charts and figures are provided to illustrate and support the findings. In the analysis of the data the research questions raised, frequency and percentage tables based on the likert type of scale responses of respondents were constructed. The analysis was done based on the research questions.

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program through descriptive statistics to provide details concerning question and factors that affect the IA in insuring effective financial control regarding budgetary public sectors. Data from questionnaires was summarized, edited, coded, tabulated and analyzed.

Qualitative and Quantitative analysis was used as data analysis technique. Primarily the data was collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, coded and analyzed to present the research findings. Analysis of the data was based on the auditors' competence, independence, top management support and their impact in ensuring effective financial control.

The study targeted a sample size of 68 respondents from which 63 filled in and returned the questionnaires making a response rate of 92.65%. This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick & Bowen (1996) recommended a response rate of 70%.

4.2 Characteristics of the Respondents

4.2.1 Response Rate

The questionnaires were distributed to the audit directors, senior auditors, accountants, finance directors of 17 purposively selected Federal Government Ministries. Four questionnaires (a total of 68 questions) were delivered to each public sector. From distribution of 68 questionnaires, 63 questionnaires were collected (14 responses from finance directors, 16 accountants, 16 audit directors and 17 senior auditors) giving the response rate of 86.25%. This shows good response rate for all respondents.

4.2.2 Demographic characteristics

As shown in Table 1, the major characteristics of the questionnaire respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 57% as male and 43% as female which suggests that high status jobs in public sectors are male-dominated and this is an indication that both genders were involved in this study.

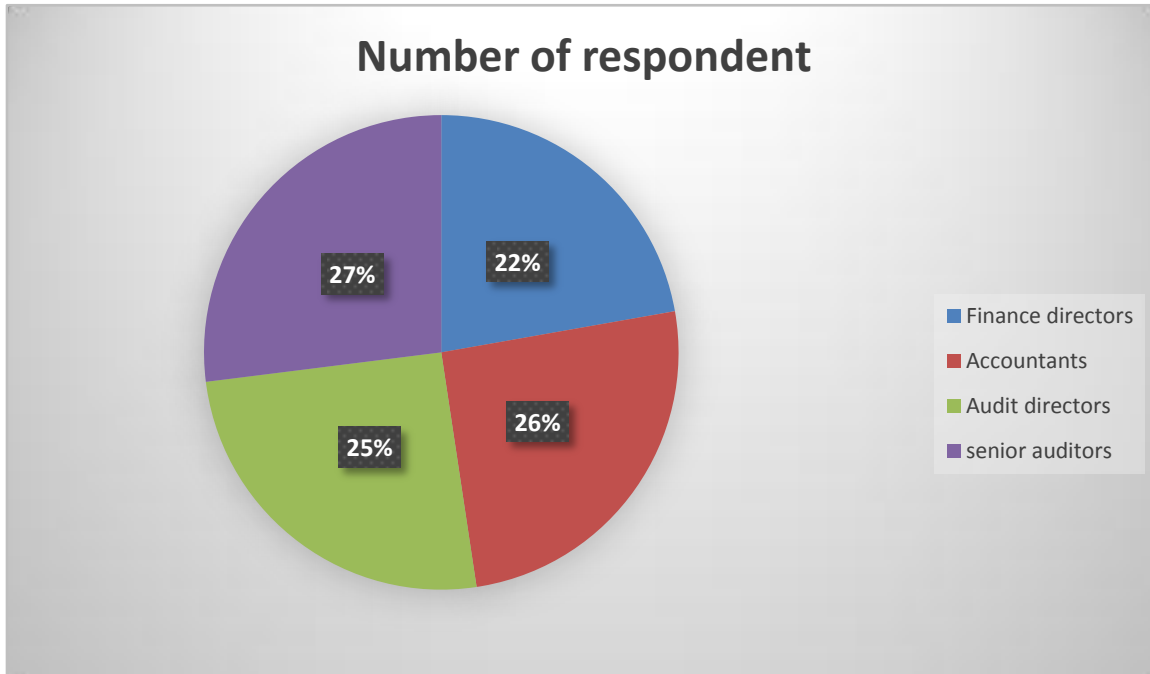
Table 1 Respondents gender Profile

Demographic Questions		Response									
		Finance directors		accountants		Audit directors		Senior auditors		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Gender	Male	10	71.4	6	37.5	9	56.3	11	64.71	36	57
	Female	4	28.6	10	62.5	7	43.7	6	35.29	27	43
	Total	14	100	16	100	16	100	17	100	63	100

4.2.3 Socio-economic status of respondents

The following chart shows that 17 of the total respondents were senior auditors and 16 were audit directors while 14 and 16 were finance director and accountant respectively. This shows that auditors were dominant participant in responding questions and the auditors' role in detecting fraud can be clearly answered.

Chart 1 Number of Respondents for the available level of position



As shown below in Table 2, the study requested the respondents to indicate their highest level of academic education. From the findings it was established that 94.20% of the respondent indicated their highest level as degree, and 5.80% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. It is also believed to provide more trustworthy information for this study.

In the case of the level of educational background, all audit directors and auditors have bachelor's degree (14, 100%) and (34, 100%) respectively. There was no internal audit that had master's degree and diploma. In addition, from both categories there were no respondents who had other level of educations. These shows the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and detection of fraud.

Whereas, most Finance directors and accountants have bachelor's degree (11, 73.33%) and (6, 100%) respectively followed by master's degree (4, 26.67%) for Finance directors and there was no accountants who have master's degree. There was no master's degree, other level of educations and diploma from both categories. As that of auditors, the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and detection of fraud.

Table 2 Educational background

Questions		Response									
		Finance directors		accountants		Audit directors		auditors		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Educational level	Diploma										
	Bachelor's Degree	11	73	6	100	14	100	34	100	65	94.20
	Master's Degree	4	27	-	-	-	-	-	-	4	2
	Total	15	100	6	100	14	100	34	100	69	100

The study requested respondents to indicate the number of years they had served for. From the findings the study established that 22. % of the respondents had worked for a period of more than 10 years, 36 % of the respondent indicated that they had worked for a period raging between 6 to 10 years. 40.60% of the respondents had served for a period raging between 3 to 5 years, and finally 1.40 % of the respondents indicated that they had worked for a period of less than 2 years.

Table 3 Experience of respondents

Years of experience		Response									
		Finance directors		accountants		Audit directors		auditors		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1-2	-	-	-	-	-	-	1	3	1	1.4	
3-5	-	-	3	50	3	21	22	65	28	40.6	

6-10	4	26.67	2	33	8	58	11	32	25	36
More than 10 years	11	73.33	1	17	3	21	-	-	15	22
Total	15	100	6	100	14	100	34	100	69	100

As shown in the figure above, the distribution of years of experience that the respondents had with working in the auditing profession was not fairly spread out among the categories. Out of 48 respondents of auditors and audit directors, 25 respondents (52.08% of total respondents) represent a group that covers 3 to 5 years of experience. This shows that the auditors are not sufficiently experienced. 39.58% of the respondents are found under the range of 6-10 years of experience in auditing. On the other hand, the group that is least represented is greater than 10 years of experience which involves 3 respondents under each range with a 6.25% of the total respondents. The remaining 2.09% of the respondent has experience of less than 2 years' experiences.

As it is indicated above, almost half of the auditors have less than 6 years of experience working in the auditing profession. This shows that the audit respondents are not well experienced working as an auditor which may make less effective in fighting fraud.

In case of professional certification, one finance director (6.67%) has ACCA Professional certification and the remaining (14, 93.33%) has no professional certification. All 48 respondents from internal auditors have no any professional certification. These can imply that there is a lack of broad range of skills and expertise, and ongoing professional development which are crucial to the formation and maintenance of an effective internal audit activity in fighting fraud. Due to lack of this professional certification, auditors may not play significant role in detecting fraud.

Table 4 respondents' professional certification

Professional certification	Response									
	Finance directors		accountants		Audit directors		auditors		Total	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
CIA										
CPA			-	-	-	-	-	-	-	-
CMA			-	-	-	-	-	-	-	-
ACCA	1	6.67	-	-	-	-	-	-	1	1.44

No professional certification	14	93.33	6	100	14	100	34	100	68	98.56
Other	-	-	-	-	-	-	-	-	-	-
Total	15	100	6	100	14	100	34	100	69	100

4.3 Competence of internal audit in detecting fraud

The study sought to establish the level at which respondents agreed or disagreed with the following statements relating to competence of internal audit in detecting fraud in Ethiopian budgetary public sectors. Fraud is difficult to detect for the reason that auditors have relatively infrequent experience of fraud in their career due to the low base-rate of fraud detection (Loebbecke, Eining, & Willingham, 1989), which results in the lack of opportunity for auditors to develop fraud detection expertise (Johnson, Grazioli & Jamal, 1993). This is true in Ethiopian budgetary public sectors where the survey result indicated that there is lack of adequate experience in fraud detection. The result show that, 55.10% and 7.20% of the respondents disagreed and strongly disagreed respectively on the statement that internal auditor possesses adequate experience in detecting fraud as shown by mean of 3.50. While, 24.60% of respondent agreed and 7.20% strongly agreed with this statement. 5.80 % of the respondents agree somewhat.

Table 5 Competence of internal audit response

No	Code	Statement	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
		Competence						
1	C1	Internal auditors possess adequate experience in detecting fraud.	3	14	-	47	5	3.5
2	C2	Ongoing anti-fraud training are not provided to internal auditor of your organization	9	43	4	13		2.3
3	C3	The auditors in my organization are qualified to undertake audit function	-	19	2	41	7	3.5
4	C4	Internal auditors fully aware of provisions by government and laws relating to fraud detection	2	21	2	35	9	3.4

5	C5	The competence of internal auditor is approved by Office of auditor general before recruitments is made	-	3	2	45	19	4.1
6	C6	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit isn't fulfilled.	16	44	5	4	-	1.9
7	C7	Internal audit use red flags questions to detect fraud	4	7	2	45	11	3.7

The above table 5 of item 2 point out that ongoing anti-fraud training is not provided to internal auditors of various Ministries and universities as shown by mean of 2.30. The result indicates that many responders believe that ongoing anti-fraud training is not provided to internal auditors (62.30% agreed and 13 % strongly agreed) while small number of responders did not think that (18.80% disagreed) and 5.8% of them somewhat agree. Having sufficient training on fraud (such as characteristics of fraud, technique used to commit fraud) is used to identify red flags indicating fraud may have been committed. This result is supported by the 2008 survey of internal audit practice in Malaysia where 20% of the respondents reported that none of their internal auditors had been trained for fraud prevention (IIAM, 2009). From this analysis it can be concluded that auditors who don't take anti-fraud training regularly are challenged to detect fraud. This is in line with Bayou & Reinstein (2001), Dycus (2002); Grazioli, Jamal, & Johnson (2006) argument that it is difficult for internal auditors to detect Fraud due to lack of adequate training in fraud nature and investigative methodologies, and hence they have reduced capability in fraud detection. So Training is vital in maintaining the effectiveness of the strategy for the detection of fraud and its general credibility.

In case of qualification (table 5 item number 3), most respondents (49.30%) disagreed as indicated by 3.5 mean that the auditors in the organization are qualified to undertake audit function and 10.10% of the respondents strongly disagree with the case. The remaining respondents: 29% agreed, 8.70 % strongly agreed and 2.9% somewhat agreed with this statement. Inadequate qualification leads auditors not to dig out fraud its causes and difficult to serve management. The results of this finding is similar with Mihret & Yismaw (2007) that concluded in their study that IA office constantly face the problem of low technical staff proficiency which would limit it capacity to provide effective service to management.

Evidence from the study showed that internal auditors are not fully aware of provisions by government and laws relating to fraud detection. 50.7% of the respondents disagreed that internal auditors are fully aware of provisions by government and laws relating to fraud detection, and 13% strongly disagree. 30.40% and 2.9% agree and strongly agree with the issue respectively. This implied that internal auditor has no adequate awareness of fraud detection laws. From this response, it is not difficult to understand that Lack of full awareness of fraud make impossible to fighting fraud.

As can be seen from the Table 5 of item 5, almost all of the respondents strongly disagreed that the competence of internal auditor is approved by Office of auditor general before recruitments are made as shown by mean of 4.1. Accordingly, 27.50% of the respondents strongly disagree and 65.20% of the respondents agreed with the case while 4.3% agrees and 2.9% agree somewhat. Office of the Federal Auditor General Establishment Proclamation No 669/2010, has given mandate to certify internal auditors of any federal government office and organization before appointment after ascertaining that the auditor has the required professional competency. Professional competency is unquestionable important for internal auditors to do their activities in efficient manner, for example to detect public resources from fraud.

Concerning skill, knowledge and experience required by internal audit, over half (23.2% strongly agree and 63.80% agree) of respondents reported that minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal audit isn't fulfilled as indicated by mean of 1.90. 7.20% and 5.80% of the respondents disagree and somewhat agree respectively with this matter. The result shows that the government sector is punctuated with shortages of qualified personnel and staff with deficiencies in professional knowledge and skills. The results of this finding is similar with the 2008 survey result of internal audit practice in Malaysia indicated the team expertise lack of fraud detection highlighted by Institute of Internal Auditors Malaysia IIAM (2009) suggest that the internal auditors need to enhance their expertise in fraud detection. Similarly, Alzeban et al (2013) have mentioned that internal auditors should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties.

Moreover, the results of this finding is similar with Petrascu et al (2014) view that in their activities, internal auditors of public sectors must have enough knowledge in order to identify the signs of a possible fraud; be attentive of the cases that involve a risk of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an organization and take actions to eliminate or reduce the possibility of fraud occurrence.

In the last part of table 5 questionnaire, respondents' opinions were asked whether internal auditors in the Ministries and universities use red flags questions to detect fraud. According to the results of the survey, the usage of red flags in auditing activities is insufficient as shown by mean of 3.7. Much larger percentage of respondents (65.2 % disagreed and 17.4% strongly disagreed) stated auditors have never used red flags to detect fraud and manipulations. 5.8 % and 10.10% of respondents have agreed and strongly agreed in turn that auditors used red flags to detect fraudulent financial reporting asset misappropriation. These percentages and the mean of the responses showed that the usages of red flags for detecting fraud and manipulations have not become prevalent yet in our country. This result shares the same idea with Pincus (1989) who examined the efficacy use of red flags among auditors. In her study, Pincus found that only half of the respondents indicated they used red flag questionnaires to assist in their fraud assessment, since they considered red flags an important tool in the audit process.

As a conclusion, the results indicated auditors' ability to detect fraud is under the problem due to lack adequate competence. The evidence indicated that auditing activity is exercised with insufficient skill and experience, little professional certification, and with no training on fraud in the selected budgetary public sectors. With all these fact, it can be underlined that internal auditors could not play significant role in fraud detection.

4.4 Independence of internal audit in detecting fraud

Independence can be described as 'operational independence', assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest, inherent bias or undue external influence.

As per the response result in table 6 of item 1 below, it is noted that internal audit unit is not vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization as shown by mean of 3.8. Most respondents agreed (65.2% disagreed and 15.9% strongly disagreed) with the statement that internal audit unit is

vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization, whereas 7.2% agree and 2.9% strongly agree on this issue. 8.7% of the respondents somewhat agreed on this statement.

Table 6 Independence of internal audit response

No	Code	Statements	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
II		Independence						
1	I1	The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the of your organization	2	5	6	45	11	3.8
2	I2	Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management which help them in fighting fraud	3	8	2	47	9	3.7
3	I3	Internal auditors render impartial and unbiased judgment in the conduct of their engagement	3	7	5	40	14	3.7
4	I4	Auditors are free to report any audit finding of fraud to senior management	3	6	3	53	4	3.7
5	I5	There is independence and no interference by management in fraud detection	5	9	-	54	1	3.54
6	I6	Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work.	18	49	1	1	-	1.7
7	I7	Auditors Provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud.	12	-	10	47	-	3.5
8	I8	Internal Auditors are independent of management in exercising auditing related decision.	3	9	-	56	1	3.6

In principle, 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. The data collected as per above table of item 2 showed that internal audit activity is not empowered to be independent by its appropriate reporting relationships to executive management which help them in fighting fraud. High percentage of the respondents i.e. 68.1% and 13% choose disagree and strongly disagree respectively. The rest 11.6% and 4.30% of the respondents choose agree and strongly agree. 2.9% of the respondents agree somewhat. This signified that being audit is dependent on management it is a challenge for internal audit to both detect fraud.

Concerning the question of render impartial and unbiased judgment in the conduct of audit, respondents opposed that internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect fraud as point out by mean of 3.7. 58% of them disagree and 20.3% strongly disagree. In contrast 4.3% and 10.10% agree and strongly agree that internal auditors render impartial and unbiased judgment in the conduct of their engagement respectively. This result is in line with Baharud-din et al (2014) that internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement. This implied that fraud detection in public sectors is the great challenge for auditors who are not an impartial, and unbiased.

For the item number 6, respondents disagreed that auditors are free to report any audit finding of fraud to senior management as pointed out by mean of 3.7. 73.9% disagree and 8.7%strongly disagree with this issue that auditors are free to report any audit finding of fraud to senior management. In comparison only 7.2% agreed and 5.8% strongly agreed with this statement, while 5.8% agree somewhat. The result denoted that internal audit fear management to report fraud cases which make difficult fighting fraud. This is in line with James (2003) study found that internal audit functions that report to senior management are perceived as being less able to prevent fraudulent reporting compared to those departments that report solely to the audit committee due to independence.

On table 6 of item 2 above, Statistical evidence reveals that 78.3 per cent and 1.4 per cent of the respondents respectively disagreed and strongly disagreed that there is independence and no

interference by management in detection. A few numbers of the respondents i.e. 13% and 7.2% choose agree and strongly respectively. The result indicated that internal audit function in Ethiopian public sectors does not add value as expected because they are not independent. It is inconsistent with the previous studies conducted by (Cohen, & Sayag, 2010; Van Peurse, 2005) that, the more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA fraud detection.

As indicated in the above table, the majority of the respondents think that Internal Auditors are freely access necessary documents, information and data about the organization/sector for audit work. 71% of the respondents agreed that Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work. The remaining 26.10%, 1.4 %, and 1.4 % of the respondents choose strongly agree, somewhat agree, and disagree in turn. The result indicated that internal auditors have unrestricted access to all records, information and data of the organization. This implies that auditors have the right to access to any record relating to the audit work without any challenges from management and fraud is detect easily.

Most respondents (68.10%) disagreed with the matter that auditors provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud while 17.4% agree on this statement. On the other hand, 14.5% of the respondents agree somewhat. From this evidence, it can be concluded that being providing dependent opinion, it is difficult to control fraud. This is consistent with Rafiu and Oyedokun (2007) noted that some public sector management adduces the argument that internal auditors, being employees in public sector do not have the liberty to exercise the unbiased and independent attitude so necessary to an auditor.

Based on the data collected from respondents, Table 5 of the last sentence indicated that internal Auditors are not independent of management in exercising auditing related decision. 81.20% of the respondents disagreed that Internal Auditors are independent of management in exercising auditing related decision while 1.4% of them strongly disagree on concern. Alternatively, 13% and 4.3% agreed and strongly agreed on the question. The result emphasized that, it is testing to defend fraud for those auditors who are dependent on management.

Generally, the results from the empirical findings relating to independence reveal an impact to control fraud. This shows that the auditors are not independent of management which discourages auditors in protecting and detecting fraud. Respondents explained that it is difficult for internal auditors in the Ethiopian public sector to achieve independence as they are employees of the organization they audit. It was confirmed by respondents that whilst internal auditors have their own separate departments in the organizational structure, these departments, nonetheless, operate under the administrative leadership of top management. This implied that Independence of Internal Audit adversely affect internal audit in detecting fraud in budgetary public sectors.

4.5 Fraud risk assessment

Table 7 shows how participants responded to questions relating to fraud risk assessment by internal audit. Responses to table 4 of question 1 indicated general agreement with the statement that internal auditor do not use fraud risk assessment during audit as shown by mean of 2. The results signified that respondents (44.9%) were agreed that fraud risk assessment is not conducted by internal audit. 29% of the respondents strongly agreed on the subject matter, while 17.4% of them disagree with this matter and 7.2% agree somewhat with the matter. Indubitably, fraud risk assessment is the means to detect fraud. As per evidence from respondents without assessment of fraud risk it is difficult reduce fraud. MoFED (2005) support this idea in that, internal auditor could use in his fraud examination is the fraud risk assessment interview.

Strive was also made to know if establishment of fraud risk assessment process considers fraud risk factors and fraud schemes, the survey result in Table 5 depicted that 62.3% of the respondent disagreed that internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes and 18.8% of the respondents strongly disagree with this question. 2.9% of the respondents agree somewhat but the remaining respondents generally agreed on the matter. All these pointed toward that fraud risk assessment process which considers risk factors and fraud schemes are not carried out by internal audit of budgetary public body. Based on this result it can be easily predicted that managing fraud is a problem for auditors.

The respondents were asked to give their opinion whether their office performs and updates its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time. The survey result which is presented below in Table 4 shows 58% of the respondents disagreed that budgetary public sectors perform and update its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time. 15.9%, 4.30%, 5% and 8.7% of the respondents agreed, strongly disagreed, and somewhat agree in turn. Complexity of technology and transaction make easy to commit fraud, if no periodical updating of fraud risk assessment. IPPF (2009) forward similar view that, a structured fraud risk assessment, tailored to the organization's size, complexity, industry, and goals, should be performed and updated periodically.

In principle, the audit charter should establish the audit role in frauds. The role of internal audit in relation to fraud control should be considered as part of the organization's overall fraud risk assessment and fraud policy and outlined in the internal audit charter. Internal audit can assist an entity to manage fraud control by, for example, providing advice on the risk of fraud and/or by advising on the design or adequacy of internal controls to minimize the risk of fraud occurring. It can also assist in detecting fraud by considering fraud risks as part of its audit planning and being alert to indicators that fraud may have occurred. As referred from Table 5, about 71% of the respondents disagreed that internal audit department's charter includes emphasis on conducting activities designed to detect fraud and 10.1% of the respondents strongly disagreed. While small number (7.2% strongly agree and 11.6% agree) of respondents agreed on the issue. The result indicates that internal audit department's charter do not considers activities to detect fraud.

Regarding organizational risk re-assessment by auditors, respondents were asked to forward their opinion. 56.5% and 5.8% of the respondents disagreed and agreed that auditors periodically reassess organizational risk assessment criteria as organization grows and changes to make sure auditors are aware of all possible types of fraud that may occur. Whereas 13%, 21.7%, and 2.9% strongly agreed, agreed, and agreed somewhat respectively.

The results in table 7 of item 6 show that 69.6% of the respondents agreed and 20.3% of respondents strongly agreed that auditors have no integrated fraud detection system with fraud prevention system in public sectors. On the other hand, 7.2% of respondents have somewhat

agreed, while there are 1.4% of respondents disagreed and 1.4% of respondents strongly disagreed with the statement. I see that the number of responders agree that auditors have no integrated fraud detection system with fraud prevention system in public sectors were more than the numbers of responders disagree. This indicates that in Ethiopian, auditors have no integrated fraud detection system with fraud prevention system in budgetary public sectors.

Most (60.9%) of the respondents disagreed that auditor evaluate whether fraud risk factors indicate pressures to perpetrate fraud, opportunities to carry out fraud, or rationalizations used to justify a fraudulent action and 13% of them strongly disagreed. however, 8.7% and 11.6% strongly agreed and agreed on this issue. 5.8% of the respondents agreed somewhat.

The result indicated that fraud risk assessments is not conducted by auditors to identify potential fraudulent arrangements using management interviews, analytical procedures review of prior fraud. Further the result shows that internal audit does not use effective fraud risk identification process which includes an assessment of the incentives, pressures, and opportunities to commit fraud which make difficult the fraud control. In order to fight fraud, auditor evaluation of fraud risk factors indicate pressures to perpetrate fraud, opportunities to carry out fraud, or rationalizations used to justify a fraudulent is unquestionably important. Jacob Rose and Carolyn strand Norman (2008) Support this finding that internal auditors tend to focus on the specific incentive and opportunities that make financial statement fraud possible and they design and monitor appropriate preventive and corrective controls. Similarly, Petraşcu et al (2014) forward the view that an effective fraud risk identification process includes an assessment of the incentives, pressures, and opportunities to commit fraud

Table 7: Response on Statements on fraud risk assessment

No	Code	Statements	frequency					Mean
		Fraud risk assessment	Strongly agree	Agree	Somewhat agree	disagree	Strongly disagree	
1	FR1	During audit, internal auditor do not use fraud risk assessment	20	31	5	12	-	2
2	FR2	Internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes.	4	7	2	43	13	3.7

3	FR3	Your organization performs and updates its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time.	4	9	2	45	9	3.6
4	FR4	Internal audit department's charter includes emphasis on conducting activities designed to detect fraud.	7	8	-	49	5	3.5
5	FR5	Auditors periodically reassess organizational risk assessment criteria as organization grows and changes to make sure Auditors are aware of all possible types of fraud that may occur.	5	10	2	47	5	3.5
6	FR6	Auditors have no integrated fraud detection system with fraud prevention system.	14	48	5	1	1	1.9
7	FR7	Auditor evaluate whether fraud risk factors indicate incentives or pressures to perpetrate fraud, opportunities to carry out fraud, or attitudes or rationalizations used to justify a fraudulent action	6	8	4	42	9	3.5
8	RF8	Auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.	3	10	-	45	11	3.7
9	RF9	The internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk.	2	7	1	49	9	3.8
10	RF10	The internal audit activity's plan of engagements is based on a risk assessment.	4	17	3	37	8	3.4

Table 7 above revealed that auditors do not design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud. 65.2% of the respondents disagreed with the question, and 15.9% of them agreed. But, 4.3% and 14.5% of them strongly agree and agree respectively. This evidence shows that internal audit do not identify the perpetrators, the extent of the fraud, techniques used and cause of fraud. If such procedure is not designed by internal audit it is, completely difficult to identify fraud and the researcher share the examination of Petraşcu et al (2014) that based on risk assessment, the

auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, will be discovered.

When I asked responders that internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk, the result is presented that 72.5% of responders disagreed and 13% strongly disagreed with this statement. Although, I received 10.1% of responders agreed and 2.9% of responders strongly disagreed with this question.

Of the responses received to the survey of the last question, there are 53.6 % of 69 respondents disagreed and 11.6% strongly disagreed that the internal audit activity's plan of engagements is based on a risk assessment, while 24.6 % or 20 and 5.8% or 4 responders agreed and strongly agreed. 4.3% of them agree somewhat. Controlling fraud is difficult without risk assessment at planning engagement and public resources is at risk. This result is inconsistent with National Standard on Audit 240 'Fraud and Error' (SNA 240) that indicate that when planning the audit, the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information about any substantial fraud or error discovered. It is also inconsistent with IIA (2010) that internal audit activity's plan of engagement must be based on a documented risk assessment, undertaken at least annually.

Generally, Fraud by definition, entails intentional misconduct, designed to evade detection.

Fraud risk assessment is a critical component or an organization's enterprise risk management program. Most respondents asserted that fraud risk assessment is not conducted by budgetary public sectors' internal audit. IA have no a mechanism for identifying which risks represent opportunities and which represent potential pitfalls. Their Audit plan do not consider fraud risk assessment and lack designing of the procedures to identify the wrongdoers, level of the fraud, method used and source of fraud.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also provided.

The purpose of this study is to examine the role of the internal audit in fraud detection in Ethiopian budgetary public sector. In recent times, there has been an increased interest in the internal audit function in the public sector to fight fraud.

This study was carried out in the 5 government universities and 15 Ministries. The data were collected through the use of questionnaires and the research paper used descriptive survey. Three open end questions, 10 closed questions and 30 Likert scale research questions were developed to guide the study. All questions were analyzed using percentages, frequency and means.

5.2 Finding

Based on the review conducted on related literature, analysis and interpretation of data made, the followings are the major findings of the research work:

- Public sectors' internal auditors lack proper independence in fighting fraud. This is due to the fact that auditors aren't free to report any audit finding of fraud to senior managers. There is no independence and interference by management in the role of fraud detection. Further, auditors are in a difficult situation to provide a neutral opinion on the effectiveness of detection processes to reduce the risk of fraud and to render impartial and unbiased judgment in the conduct of fraud related engagement. Beyond all these, internal audit unit is under pressure of independent checks, in order to assess compliance with established rules and regulations of the public budgetary sectors. Finally, internal audit activity is not empowered to be independent by its appropriate reporting relationships to executive management which comfort them in fighting fraud as per data obtained.

Regarding to competence:

- As a whole, internal auditors do not have adequate experience and they have no professional qualification in accounting and auditing field which help them to detect fraud. They also lack ongoing anti-fraud training, using red flags questions to detect fraud, and lack full awareness of laws relating to fraud detection. Unapproved

competence of internal auditor by independent body is another challenge which plays a significant role in exercising fraud detection.

- This study found that fraud risk assessment, which identify where and how fraud may occur and who may be in a position to commit fraud, is not used by auditors. Under the umbrella of lack of risk assessment:
 - ✓ Fraud risk assessment process that considers fraud risk factors and fraud schemes is not exercisable.
 - ✓ Internal audit department's charter doesn't include emphasis on activities designed to detect fraud.
 - ✓ Auditors do not reassess organizational risk assessment criteria as organization grows and changes to make sure auditors are aware of all possible types of fraud that may occur.
 - ✓ Auditors have no integrated fraud detection system with fraud prevention system.
 - ✓ Auditor do not evaluate whether fraud risk factors indicate incentives or pressures to perpetrate fraud, opportunities to carry out fraud, or attitudes or rationalizations used to justify a fraudulent action.
 - ✓ Auditors don't design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.
 - ✓ The internal audit activity doesn't evaluate the potential for the occurrence of fraud and how the organization manages fraud risk and risk assessment is not done as part of audit planning.
- Internal audit plays a minor role in detection of public assets and financial statement from misappropriation and fraudulent.
- Public sectors have insufficient policies or a fraud mechanism structures in place that can reasonably assure them that fraud will be detected.
- Audit Procedures adopted are not effective and efficient in detecting fraud.

5.3 Conclusion

This study deals with the perceived role of internal audit in fraud detection. Based on the summary of major findings of the study, the following conclusions are drawn. Internal audit require specific capabilities (i.e., the professional knowledge, professional skills and experience)

to carry out their work as competent audit professionals. An internal audit activity need of organizational independence which can allow the audit activity to conduct work without interference by any party for the audit task. Further, assessment of risk of fraud is irreplaceable audit role in detecting fraud.

Audit staffs of the budgetary public sectors lack the necessary competence of fraud detection which leads the public sectors more exposed to fraud perpetration and resources embezzlement. The internal audit teams do not have satisfactory knowledge, skill and qualification fraud awareness, training on fraud and other competencies which can have a transformative effect in fraud detection. Moreover, almost all auditors have no professional certification which upgrades their knowledge of fraud detection mechanisms. From all these it can be concluded that if adequate competence is acquired, internal audit can fight fraud at the required level.

The study notes that the general belief that the public sector internal audits does not have the liberty to exercise the unbiased and independent attitude in clash with fraud. Auditors are not sufficiently independent from those they are required to audit and they conduct their work with interference. Internal audit work is affected by top management who are the political office holders, having no permanent interests and leading to non-commitment to internal audit reports. This dependence takes internal audit departments not to form key lines of defense in opposing Fraud.

On the whole, Fraud risk assessment which strengthens fraud detection is not made by public sectors' internal audit. As a result it is difficult to understand the risk that is unique to its public sectors, hard to identify gaps or weakness in control to mitigate those risks, and challenging to develop practical plan to reduce risk. Not using fraud risk assessment made unable to identify fraud committed and who may be in a position to commit it.

The survey result also indicated that internal audit examines, and evaluates the adequacy of internal control and inform management in case of discovering weaknesses of internal control with the deficiencies of independence, competence and fraud risk assessment.

Based on the findings of competence, independence and fraud risk assessment, it is concluded that internal audit is toothless in fraud detection operation.

5.4 Recommendations

On the basis of the findings, the following recommendations are proposed for the consideration of public budgetary sectors, management of the public sectors and the internal auditors.

- The study recommends that internal auditors should have training and sufficient knowledge on fraud to perform the chief role of fraud detection in governmental organization.
- National internal audit qualification program should be designed. This would help auditors to upgrade themselves in order to meet challenges of fraud.
- An experienced accountant of high integrity, preferably a professional Accountant, should lead the internal audit department.
- The competence of internal auditors should be approved by independent body before recruitment is made.
- As the research proved that competent internal audit staffs were the major determinants of IA role in detecting fraud in the public sector, the public sectors should recruit certified internal auditors or facilitating condition for certification of the staff.
- Every public sector should establish audit committees which are made up of experts from different field that are independent from the management of the public sectors. The existence of audit committee enhances the independences of the internal audit unit to report on frauds without fear. The current reporting relationship of internal auditors to top management does not make internal auditors to enjoy some level of independence. For the purpose of improving the independence of the internal auditors, they should rather report to audit committee.
- The internal auditors at all level should be adequately independent of members of various departments within the organization so that their usefulness in fraud detection can become evident and superior.
- Fraud risk assessment should be carried out to identify potential risk areas and events that public sectors needs to mitigate fraud.

- Auditors should design effective audit procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.
- There should be regular evaluation of control in order to determine their effectiveness in detecting fraud and identify weaknesses.
- Generally, to play significant role in controlling fraud, internal audit should be independent and competent, and should assess risk of fraud.

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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSc IN ACCOUNTING AND AUDITING

Title of the Research project: The role of Internal Audit in ensuring effective financial control in Ethiopia

Dear Respondents,

A LETTER OF INTRODUCTION

I am conducting a research project under the title “The role of Internal Audit in ensuring effective financial control in Ethiopia”. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

I guarantee that all information supplied will be treated with the strictest confidence and used, only for the academic purpose for which it is intended. Thank you for your cooperation and valuable contribution towards the success of this research work.

Yours faithfully,

Researcher’s Address:

Mulu Teshome

Mobile: 0911425687

E-mail: muluteshome@yahoo.com

Addis Ababa

Ethiopia

I. Purpose of this research

The purpose of this survey is to collect data regarding The role of Internal Audit in ensuring effective financial control in Ethiopian Budgetary Public sectors. Your participation will help the researcher to better understand how and to what extent Internal Auditing Detect Fraud.

II. Extent of anonymity and confidentiality

No personally identifiable information is being collected from and all information you provide will be combined with other respondents' data, analyzed and reported in aggregate. Responses will be kept confidentially at all times, and used for academic purpose only.

III. The personal profiles:

General Instruction: Please indicate your choice by putting “√” mark in the box or supply the required information where, required, please specify and elaborate.

1. Please indicate your gender M F
2. What is your level of position title in your organization? -----
3. What is your highest level of completed academic education?

 Diploma Bachelor's degree Masters' degree
 PHD Other specify it-----
4. What is your highest level of professional certification?
 CIA CPA CMA ACCA

 No professional certification other specify it-----
5. How long have you worked in the organization?

Less than 2 years 3 - 5 years

 6-10 years More than 10 years

IV General Question:

Role of internal audit

6. Do you think that financial control of your organization is strong enough?

- Yes No

7. Do you feel Internal audit of your organization play critical role in ensuring effective financial control?

- Yes No

8. Did internal auditors of your organization produced audit report regarding financial control weakness and possible recommendation?

- Yes No

If your answer is yes, would you please mention some of the findings-----

Competence

9. Do you think that internal auditors of your organization are competent enough to ensure effective financial control?

- Yes No

Independent

10. To what extent does Independence of Internal Audit affect financial control in Ethiopian budgetary public sectors?

- Very great extent
 Great extent
 Moderate extent

Little extent

No extent

11. Do internal audit independent from management of your organization in carrying out his/her duties?

Yes

No

12. If your answer is No on Question No 11, specify challenge(s) facing the internal audit unit in your organization

Please provide your level of agreement or disagreement with the following statements (please mark “√ ” for each line in the labeled columns) strongly disagree=5, disagree=4, agree somewhat 3, agree=2 and strongly agree=1						
<u>No</u>	Factors	1	2	3	4	5
I	Independence					
1	The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of your organization					
2	Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management					
3	Internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect financial control weakness					
4	Auditors are free to report any audit finding of financial control weakness to senior management					
5	Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work.					
6	Auditors Provide an independent opinion on the effectiveness of financial control.					
II	Top Management support					

1	Senior management responds positively to internal audit findings and recommendations					
2	Internal auditors can get the necessary resources or facilities that help them to perform auditing activities as needed.					
3	Our Sector management do take the necessary action on internal audit reports and recommendations.					
4	The sector supports Internal auditors to introduce themselves with new technology, policy or procedures when it is necessary.					
5	The sector does not support Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems.					
III	Competent					
1	Internal auditors possess adequate experience in ensuring effective financial control.					
2	Ongoing financial control training are not provided to internal auditor of your organization					
3	The auditors in my organization are qualified to undertake audit function					
4	Internal auditors are fully aware of provisions by government and laws relating to financial control					
5	Training for the role and responsibilities of persons involved in financial management and control					
6	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled.					