ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MASTERS OF SCIENCE (MSC) IN ACCOUNTING AND AUDITING

CHALLENGES OF INTERNAL AUDITORS IN PERFORMING AUDIT ACTIVITIE'S IN ECONOMIC SECTOR FEDERAL PUBLIC MINISTRIES.

BY: SINTAYEHU KAGNEW

A RESEARCH PROJECT SUMITTED TO THE DEPARTMENT OF ACCOUNTING & FINANCE FOR PARTIAL FULFILLMENT OF THE REQUIREMENTS OF MASTERS OF SCIENCE DEGREE IN ACCOUNTING AND AUDITING.

FEBRUARY, 2018
ADDIS ABABA, ETHIOPIA

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MSC PROGRAM IN ACCOUNTING & AUDITING

Challenges of internal auditors in performing audit activities in Economic sector Federal public ministries

By: Sintayehu kagnew

Approved by: Board of examiners

1. Chairperson	**Signature**
___________________	___________________
2. Advisor	**Signature**
___________________	___________________
2. Internal examiner	**Signature**
___________________	___________________

DECLARATION

I, the undersigned declare that this research work 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.

Declared by:

Name: Sintayehu Kagnew

____

Signature

Date:

Confirmed by advisor:

Name: Abebaw kassie (PhD)

____

Signature

Date:

I. Abstract

This study is an attempt to providing an insight to current major challenges of internal auditor's in performing their audit activities in selected federal ministries. To achieve the objectives of the study primary and secondary data is used. The secondary data mainly government publications and the primary data were collected using questionnaire from 68 respondents in the 8 federal public ministries. And interview is also conducted from the target group. The data is analysed using descriptive study; both qualitative &quantitative methods are used, by applying purposive sampling technique. the major findings reveals that Detailed Audit work program is not prepared & implemented, lack of consistent documented practice in conducting audit engagement and preparing working paper. internal audit reports are not prepared as per the standards, they don't have full competency in skill and knowledge at the level in which the professions demands to be, there is no special benefit given to motivate them for their unique contribution, staff shortages, lack of awareness & training and recognizing internal auditors as fault finders by management are the main basic challenges internal auditors still encounter in doing the audit engagements. and the study concludes that internal auditors economic sectors public ministries is not implemented the audit activities as per the IPPF standards of internal audit. Thus the study recommends IA should implement audit program, risk assessment as part of audit planning, continuous professional developments, and improvement of auditors remuneration and fringe benefits to encourage performance.

Key words: ***challenges & prospects of internal auditor activities relating to planning, executions, reporting, follow up, independence, competence & job satisfactions.***

Acknowledgements

First and for most, I thank the almighty god for his wisdom and patience that gave me during my research work. I would like to express my deepest thanks to my research advisor Abebaw kassie (PhD) for his continues comment and supports to make this research project paper and for the information given that is very valuable for my study I would also like to give special credit to internal audit staffs in federal government public ministries for their valuable information that has improved this study. My thanks also goes to my wife's who were with me throughout my research work.

Sintayehu kagnew

February, 2018

Addis Ababa University

Table of contents **page**

Chapter one: Introduction

Chapter two: Review of the related literature

List of tables

List of charts page

I. List of acronyms and abbreviation:

CAE:	Chief Audit Executive
CPA	Certified Public Accountants
IA:	Internal Auditors
IIA:	Institute of internal auditors
IPPF:	International Professional Practices Framework
MOFEC:	Ministry of finance and Economic cooperation
OFAG:	Office of the Audit General
ISA	International standard on Auditing
APBG	Auditing Practices Board Auditing Guidelines
ISPPIA	International Standards for Professional Practice of Internal Auditing
CIPFA	Chartered institute of public finance and accountancy
ACCA	Association of chartered certified accountant
CIA	Certified internal auditor
CMA	Certified Management Accountant
CPA	Certified Public Accountant
ASB	Auditing Standards Boar

CHAPTER ONE

Introduction

The current major challenges faced by internal auditors in performing their audit function in each audit process are the vital concern of this project study. This chapter introduces background of the study, statement of the problems, and discusses on objectives, significances, scope and limitation of the study.

1.1 Background of the Study

Today federal government of Ethiopia spent billions of birr budget in a capital project; and governments were highly dedicated in providing attention on economy sector like infrastructure, industries, and agriculture which has a direct major impact to the economic development of a country and it is a basic input for socio-economic development as it covers such a wide spectrum. The money spent to finance these sectors has come from various sources including tax payers' money, grants, foreign and local borrowing and as such must be used with prudence. Responsible financial management and accountability are among the factors that can help governments achieve this goal. But there is a loop holes especially in the internal controls of the public bodies not to implement based on the legal frame work established by the government. One of these indications are not providing due attention for internal auditors, the continuous adverse and disclaimer audit opinion disclosed by the general audit findings to the public OFAG, (2007). Not taking actions on the audit finding, internal audit report shows immaterial audit findings which is not add value to the organization and the report is not up to the standards MOFED, (2008). *Inspection Departement internal control of public bodies follow up report.* Therefore, internal auditors are responsible for auditing government budget can have critical role by acting as watch dogs for financial integrity and creditability of reported information.

The broader focus of internal auditing has been clearly described in the definition of Institute of Internal Auditors IIA, (2012) Practice Framework**.** It is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It also helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes**.**

Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement Baharud-din, Shokiyah, and Ibrahim, (2014). In providing the valuable internal audit unit activities, organizational independence play significant role to conduct audit activity without intervention by management on audit to be performed. This implies that auditors have the right to access to any record relating to the audit work without any challenges from management.

But currently, independence is not a critical issue, because following the outcry of internal auditors from every corner of federal public body, the government of Ethiopia recently amended the financial administration proclamation No 648/2008 which made the head and professional staffs of internal audit of public bodies shall be accountable to the minister of finance. This will have a significant change in the independence and objectivity of internal auditors in determining their audit scope, and performing their audit process without the interference of management. Although this measure considered as a one-step move forward for the profession challenges of internal auditors in relation to independence in the other way round and also in performing their audit functions are still on the increase particularly in economy sector public bodies. That's why this study is needed to conduct further current examination on the challenge and prospects of internal audit in implementing audit functions.

1.2 Statement of the problem

According to the IIA (2006), definition of internal auditing, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. To have such practice it is not an easy task. Auditors must be able to pass many challenges at all the planning, execution, reporting and follow up stages of the audit process.

Internal auditors are facing many challenges in exercising their job. A challenge, in this context, can be something, which constrain auditors from achieving their objectives. Auditing as a profession needs auditors to be competent enough in skill and experience, be independent from any conflict of interest, is careful in conducting their work and so on. In the absence of such values, it is difficult for them to provide useful information. In addition, if the awareness of the public, audited entities and political person's is not positive, the audit work could not be an easy task as they may harm the independence of internal auditors in public bodies.

Although, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development. Further, Mihret and Yismaw(2007) in their case study on Ethiopian public Universities, argue that lack of competent personnel is challenges of internal auditors. 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 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 this is why there is wide spread misappropriation of public sector funds and massive corruption in Nigeria. But there are few studies on challenges of IA in performing audit activities in Ethiopia but they are not covering all components of internal audit process. Alamirew, M. (2015) do not investigate challenges of internal auditor activities relating to planning, executions, reporting, follow up, independence, competence & job satisfactions. but only the management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, and Lukas Beyash (2015) had also evaluates only challenges in relation to independence, education, training, experience ,job satisfaction and staff capacity. Thus, in the present study, challenges faced by internal auditors in performing their audit activities with related to audit planning, evaluating, reporting, follow up, independence, competence, job satisfactions as these challenged were not adequately addressed in the previous studies.

1.3 Research question

1. What limitations do IA faces in planning and executing audit activities?
2. What are the major loopholes in reporting and follow up audit result?
3. Do independence, competency and job satisfaction affect internal audit activity in such sector?

1.1 Objectives of the Study

The primary objective of this study will assess challenge and prospects of internal audit activities in the Economy sector federal ministries and recommend a solution.

1.1.1 Specific Objectives

Particularly, the study will be able to address the following specific objectives:

- To assess the extent of planning in carrying out the audit activities.
- To examine the performances used in evaluating the audit evidence
- To evaluate the practice used in reporting the audit result.
- To examine activities used in monitoring audit recommendation.
- To evaluate internal auditors independence, in performing audit activities.
- Examine the contribution of competence of internal auditors in performing audit function.
- To assess job satisfaction of the internal auditors.

1.2 Significance of the Study

The output of this study will able to have the following significance:

- The findings of this study enable the government as well as other ministries to revisit the implementation of internal audit in the public institutions;
- The output will be useful for donors and international organization to check whether the fund they provided for internal audit reform brought the capacity in internal auditing system;
- Contribution for the professions development.
- Remembering auditors on the cares to be taken and professional's accountabilities expected from them.
- The results of this study will help as a reference for further research in the area.

1.3 Scope and limitation of the Study

The researcher mainly focus on the study of what challenges the internal auditor's faces in performing their audit activities in 8 key economy sector federal public ministries which run different projects in the country and having more than 100 million annual recurrent & capital budgets. And Inspection Directorate of MOFEC will also be included in the study as one institution because it has a regulatory role in the internal audit system of the federal public institution. This study will be more successful if it's conduct on all federal and regional public institutions, public enterprises and private sectors of internal audits in the country. It is quite known that any study is not absolutely free from limitations. However, due to various reasons, including time and financial constraints, delay by the respondents in returning back the questionnaire, it is out of the reach of the researcher to incorporate all in this study.

1.4 Organization of the Study

The study includes five chapters. The first chapter deal with introduction (i.e. background of the study, statement of the problem with research questions, objective of the study, significance of the study, scope of the study, and limitation of the study and organization of the study). The second chapter deals with related literature. The third chapter shows research design and methodology. The fourth chapter have data analysis and interpretation and the last chapter contain summary, conclusion and recommendation

CHAPTER TWO

2. Review of the related literature

2.1 Introduction

In this chapter reviews of different literatures related to internal audit and the challenges faced by auditors were made. The sources of the literatures were different books, journals, articles, research papers etc. from within the country and abroad. Both theoretical as well as empirical reviews are covered in this chapter.

2.2 Theoretical review

2.2.1 Basic Concept of Internal Audit

Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes Coram, Moroney, R.A.(2007). With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

Baltaci, M & Yilmaz,S (2006) the scope of internal auditing within an organization is broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

But Glass, R. (2005), argued that Publicly-traded corporations typically have an internal auditing department, led by a Chief Audit Executive ("CAE") who generally reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer. The profession is unregulated, though there are a number of international standard setting bodies, an example of which is the Institute of Internal Auditors ("IIA"). The IIA has established Standards for the Professional Practice of Internal Auditing and has over 150,000 members representing 165 countries, including approximately 65,000 Certified Internal Auditors.

The Chartered Institute of Public Finance and Accountancy (CIPFA), defined internal audit an assurance function that provides an independent and objective opinion to the organization on the control environment, by evaluating its effectiveness in achieving the organization objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Also, Auditing Practices Board Auditing Guidelines (APBG) defined internal audit as "An independent appraisal function which is established by the management of an organization for the purpose of reviewing internal control system as a service to the organization. Moreover, According to Katz (2002) Internal audit independently reviews and evaluates the adequacy of the system of internal controls and makes recommendations to management to improve these controls.

The IIA (2012) definition has brought changes in the scope and role of internal audit activities in both private and public sectors. The concept of activity (i.e. assurance and consulting) that has been included in the definition, would allowed the individual auditor who may be outside the organization contracted by the organization to provide an internal audit service.

In addition, assurance and consulting, adding value and improving considering the whole organization, improving the effectiveness of risk management, control and governance processes are the new concepts included in the definition that are required more proactive and customer driven approach services from internal auditor.

2.2.2 The Development of Internal Audit in Ethiopia

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s. The first substantial development during this period was the issuance of Ministry of Finance directives in 1942. This was followed by the formation of the Audit Commission by Proclamation No. 69/1944 to undertake external audit of accounts of the Ministry of Finance (Government of Ethiopia, 1944), which was subsequently mandated to conduct the external audit of other budgetary institutions as well. This marks the start of today's Office of the Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in the country. The second development was the formation of the Office of the Auditor General (OAG) was then established in 1961 by proclamation number 199/1961 (Government of Ethiopia 1961), which accorded the OAG greater authority than the Audit Commission that was established in 1944. Kinfu, (1990). Internal audit as a separate function also appeared in this period (in 1987) when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises Argaw, L. (2000). This proclamation also gave the auditor general the authority to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations.

The Ethiopian government has also been providing enhanced support to the development of internal audit since 1994 Teklegiorgis, H. (2000). In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFEC) has been mandated to develop a manual for internal audit in government organizations. Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia's (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector Zeleke, B. (2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s.

2.2.2 Auditing and Internal Audit Practices

Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control systems Soh and Bennie, (2011).

Effective audit practices in the public sector is very crucial as it protects the interests of the citizens, strengthens governance by significantly enhancing the citizens' ability to hold their public officers accountable. Auditors' duties are very important especially in the aspect of promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption. Audit practices entail but not limited to assurance and advisory services (ranging from financial attestation to performance and operational efficiency). Widened scope of the public sector audit practice's directives would influence the public entity's overall activities. Although the audit practices tend to differ across countries but generally, public sector audit activities entails: organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support and Professional audit standards IIA, (2012).

According to McRae & Gils (2014) internal audit practices or activities comprise of internal auditors' competence, roles and responsibilities, independence and objectivity in carrying out their work and report effectively.

2.2.3 Roles, responsibilities and functions of Internal Audit

In public institutions internal auditors play the role of consultants and assurance providers. Consulting is a function of auditors in terms of providing activities that add value and improve the management of public organizations, its risks management and internal control systems without assuming the management responsibility Badara & Saidin,(2012). This is explained in these dimensions namely (1) identification of obstacles and causes preventing the normal unfolding of processes, analyzing its consequences, and finding its effective solutions; (2) getting additional information to facilitate in-depth knowledge of the operation of the standard system or of regulatory stipulation by the relevant staff and (3) training and professional development aimed to increase skills and knowledge in management, risks assessment and monitoring and internal control systems. This is based on the fact that internal auditors should possess the professional and theoretical experience in the domain of the services to be audited IIA, (2009). Internal auditors in public organizations should also provide assurance services to different stakeholders. This kind of assurance is in terms of identification of the risks in the processes and activities within the institutions related to management and internal control systems. Thus, the internal audit provides an opinion on the status of internal processes, systems or other management issues Al Matarneh, R. (2011).

Internal audit performs three types of audits, namely; system audit, performance audit and compliance audit. System audit refers to an assessment of the management and internal controls in order to determine if they operate efficiently and effectively as they are designed and respond to current environment of the institutions. In evaluating the system, internal auditors are to find the deficiencies and provide remedial actions to be taken on time so that they may not affect the achievement of the set objectives. It should be noted that accountability and transparency in financial reporting, be it in the private sector or public sector, relies heavily on the adequacy and effectiveness of the control environment and the control systems. Performance audit deals with examining the set criteria of the implementation of the entity y's activities compared to the level of achievement of objectives. Performance auditing distinguishes itself from other forms of auditing because it focuses on the performance of an organization, on the organizations´ projects or programs and the systems and procedures they use to control the performance. Improving an organization’s efficiency and effectiveness is one of the purposes of performance auditing Hutchinson & Zain, (2009); Atu &Atu, (2010); Alzeban, and Gwilliam, (2012). In the words of UKura, (2016), performance audit is the audit of economy, efficiency and effectiveness and these days extends even to environmental audit which assesses the impact of a government's environmental management program. In conducting compliance audit, internal auditors show if the organizational activities are conducted in line with the standards, principles, policies, and procedures established in public spending.

Heightened pressure and accountability on corporate governance actors, due to greater emphasis on sound corporate governance Soh and Bennie, (2011) have increased the prominence and reliance on the internal audit function. The internal audit function is a key component of a firm's corporate governance system Cohen & Sayag, (2010) and Arena & Azzona, (2009) and a resource to a number of governance stakeholders, such as the audit committee, public governance council and external auditors Kuta, (2008). The internal audit function provides such stakeholders with information on a range of important issues. It plays a vital role in monitoring the risk profile of an organization. Moreover, it identifies areas that will enhance the risk management procedures. An internal audit is helpful for entities in identifying and evaluating risks and putting the profession at the front line of risk management Kwanbo, (2009).

The management and governance council of any public entity are responsible for the development of the process of internal control which provides effective assurance about the achievement of its objectives regarding financial reporting, operations and compliance with the regulations Theofanis, Drogalas, & Giovanis, (2011); Ljubisavljević and Jovanovi, (2011). So the use of strong internal controls system evaluated by the internal audit is of value in public entities.

Internal audit function plays a role of managing control environment of the entity. This is because it is a reflection of the attitude and the policies of management with regard to the importance of internal audit in the economic unit Pickett,C. (2005). Thus, organizational environment has influence over organization goals achievement Feizizadeh, (2012). However, it is the foundation for the other components of internal control and provides the structure Raghavan,(2011). Control environment assists toward reducing the level of fraudulent activities within organizational operation as the quality of an entity's internal controls system depend on the function and quality of their control environment Al-Shetwi, Ramadili Chowdury & Sori, (2011). Therefore, providing a proper control environment for any public sector entity is very essential to the effectiveness of its operations and transparency in reporting.

It is the main component of work of internal auditors to assess the organizational risks. This is the identification and analysis of major risks associated with the achievement of the management objectives Selim, Woodward and Allegrini, (2009). Similarly, Arena and Azzona (2009) view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principle. In this situation, management must determine the level of risk carefully to be accepted, and should try to maintain such risk within determined levels.

Therefore, public sector entities, at whatever level Federal, State or local government, -are required to frequently assess the level of risk they are experiencing in order to take necessary actions Messier, Reynolds, Simon and Wood, (2011). It is the role and responsibility of internal auditors to ensure that organizational risks are assessed and managed as well as to ensure effective control of all organizational activities by monitoring and suggesting the effective policies, procedures and mechanisms that ensure management's directives are properly carried out towards the achievements of goals Aikins, (2011); Vijayakumar & Nagaraja, (2012).

It is the role of internal auditors to identify, capture, and communicate all the relevant information in an appropriate manner and within timeframe in order to accomplish the financial reporting objectives of the organization Abushaiba & Zainuddin, (2012); Soh, and Bennie, (2011). The internal audit function is one of the corporate governance mechanisms used to monitor behavior of the management Smith, (2012); Aikins, (2011)and Munro & Stewart, (2010).

Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders Arena & Azzone, (2009) and Kuta, (2008). The internal auditor is in the unique position of having daily access to the internal culture, management, processes, and activities of the organization Mihret et al. (2010); and Kuta, (2008).

The Institute of Internal Auditors states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes IFAC, (2010) and IIA, (2009).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. 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. If auditors are not independent, the users of their reports will lose confidence as the conclusions reached and opinion given by the auditor may be biased. Thus, internal auditors should be independent in mind (a state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment) and in appearance (in that third parties would reasonably conclude that the internal auditor's integrity, objectivity and professional skepticism had not been compromised). 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). Modibbo (2015) in his study on selected local governments Adamawa state suggested that establishing internal audit department as an independent body is key to its independence and effectiveness. This will enhance the internal auditor's ability to A distinguishing feature of internal audit is its independence. Internal audit is independent in the sense that it is independent of the activities it audits. This independence, best described as 'operational independence', assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest or inherent bias or undue external influence.

However, internal audit is not independent of the organization in the same way as the external audit function. It provides a service to management, reports to the Audit Committee and is accountable to the Chief Executive or the Board for the achievement of its objectives and the use of its resources. Its independency and objectivity would be maintained by appropriate placement and organizational status, reporting relationship, competency, and legislative requirements.

In addition, to maintain the independence of internal audit, countries like Ghana has established Internal Audit Agency (Websites) while Kenya has established the Internal Audit General under the Ministry of Finance Diamond, (2002) and Wajibika, (2010). Most OCED countries have established strong Internal Audit Central Harmonization Unit under the Ministry of Finance and Internal Audit Coordination Board (Websites).

Moreover, in the United States of America, following the 1978 Inspector General Act, an Inspector General (IG) established in almost all agencies, as head of the internal audit and it is kept separate from the rest of the agency. Under this Act, the IG is required to submit all reports directly to the head of the agency and also is required to keep Congress informed of their work Diamond, (2002). This keep informing the Congress has created independence to Inspector General of each agency.

2.2.3 International Internal Auditing Standards

According IIA's International Standards for the Professional Practice of Internal Auditing *(Standards) revised 2012,* internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

Standards, internal auditors and the internal audit activity must conform with the *Standards*, and may conform with the other standards if they are more restrictive.

The purpose of the *Standards* is to:

- ❖ Delineate basic principles that represent the practice of internal auditing.
- ❖ Provide a framework for performing and promoting a broad range of value-added internal auditing.
- ❖ Establish the basis for the evaluation of internal audit performance.
- ❖ Foster improved organizational processes and operations.
- ❖ The *Standards* are principles-focused, mandatory requirements consisting of:
- ❖ Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- ❖ Interpretations, which clarify terms or concepts within the Statements (IIA's 2012).

2.2.4 Internal Audit Reporting Structure

Theoretically, the Chief Audit Executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization and functional reporting line for the internal audit function is the ultimate source of independence and authority Rupsys, D. (2005).

Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the C.A.E on the results of the internal audit activities or other matters that the C.A.E determines are necessary, private meeting with the C.A.E without management present, approve all decisions regarding the appointment or the removal of the C.A.E, approve the annual compensation and salary adjustment of the C.A.E, and make appropriate inquiries of the management and the C.A.E to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility. On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day to-day operation of the internal audit function it typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures Gleim,F (2002).

2.2.5. Quality Assurance and Improvement Program

This program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and Standards. It helps to evaluate whether internal auditors apply the Code of Ethics or not in their audit activities.

The program includes internal and external assessments. It also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement IIA, (2000). So, according to this standard, it expected from the head of internal audits to design the quality assurance and improvement program in order to maintain quality in their activities.

2.2.6 Major Challenges of internal audits

Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manuals are, Lack of expertise, leading to trivial audit findings and lack of management respect; Lack of opportunity for professional development; Domination by dishonest management and staff members, leading to the neglect of sensitive areas where controls are weak and encourage abuses; Repetitive audit routines which staff members can predict; Being assigned to tasks such as accounting and pre-control of expenditures which the internal auditor will subsequently have to audit (conflict of interest); Inability to insist on getting significant information because of fears of losing promotion opportunities and job security (lack of independence); Being ignored; Top managers who are engaged in avoiding controls to the detriment of the entity. Management and employees do not maintain and demonstrate a positive and supportive attitude toward internal controls; Wrong perception of the audit function and auditors by staff of the public body.

2.3 Empirical reviews on the challenges of internal audit activities

2.3.1 Internal audit independence

A substantial body of research examines the independence of internal auditors. Stewart and Subramaniam (2010) provide a thorough review of this literature, and they begin by noting the IIA definitions of independence. Independence refers to the "freedom from conditions that threaten objectivity or the appearance of objectivity". Similarly; Christopher, Sarens, and Leung (2009) found evidence of various threats to independence, including reporting structures in which the internal auditor does not report to the audit committee. Among other things, Leung, Cooper and Robertson (2004) find wide variability in reporting procedures, with some internal audit functions reporting solely to management and others to the audit committee.

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. Van Peursem's (2005) found that internal auditors' close relationship with management can place their independence at risk.

Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement Baharud-din, Shokiyah, and Ibrahim, (2014). In providing the valuable internal audit unit activities, organizational independence play significant role to conduct audit activity without intervention by management on audit to be performed. This implies that auditors have the right to access to any record relating to the audit work without any challenges from management. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or As an employee Caplan D. & Kirschenheiter, M.(1999). In certain extent there is a confusion of the role of IA as internal auditors is part of the management team and at the same time to independently evaluate management's effectiveness and efficiency. However, in more recent Years, there has been heightened interest in issues associated with the independence of internal Audit. This could affect the effectiveness of internal auditing as even though internal auditors are charged with upholding the best interests of their employer, they may be reluctant to counter Management, regardless of consequences Saren G. and De Beelde, I.(2006). This argument was in line with the assertion of Zeleke (2007), who argued that organizational independence, allows the audit unit to conduct work without interference by the entity under audit.

Van Peursem (2005) based on interviews with Australian internal auditors, and concluded that Independence from management is a dominant feature of successful auditing programs. Similarly, Clark, Gibbs and Shroeder (1981) found that the independence of the internal audit department and the level of authority to which the internal audit staff report are the two most important criteria influencing the objectivity of their work.

Moreover, Bou-Raad (2000) argued that the strength of an IA department must be assessed with Respect to the level of independence it enjoys from management and from operating responsibilities. The IIA, the American Institute of Certified Public Accountants (AICPA) and others have likewise identified organizational independence as crucial to the viability of the internal audit function Brown (1983). Organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports Cohen & Sayag, (2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

2.3.2 Internal Auditors' Professional Skills and Competence

The IIA (2009) stated that auditors should use their professional skills, due care and prudence in every assignment. Sometimes, internal auditors are qualified engineers, production engineers, sales persons, management personnel and accountants, so they have the relevant knowledge and experience of the operations of the organization Selim, Woodward and Allegrini, (2009). Arena and Azzona (2009) submitted that high qualification of internal auditors may be an excellent way to reduce the organization's performance gap. As in the, public sector internal auditors should need high education to understand their responsibilities under the public sector finance, accounting and to perform high standard of work in such areas.

Adequate and competent internal auditors refer to capacity of internal auditors. The study of Akinbuli (2010) demonstrated that adequacy, quantity and competence of internal auditors determine the quality of their work in any given task within the organization. Previously, Kwanbo (2009) mentioned that the large size of internal auditors in an entity is an indicator of Better resources that the audit department has within an organization. This may be used to enhance the quality of internal audit work as many audits can be planned to be done together, and a broader scope could be covered within reasonable timeline.

Furthermore, the effectiveness of internal audit requires that the staff be professionally educated, trained and experienced in the field or work. Beyond the formal education from universities and colleges of business, they have to get professional certificates from recognized professional bodies after which they have to get professional practical hands-on training from audit practice in order to acquire effective experience and continual development is key in such field Seol et al, (2011); Stewart & Subramaniam, (2010) Leung & Cooper, (2009). Some of the skills needed by internal auditors include communication skills Seol, Sarkis and Lefley, (2011) such as listening, interpersonal, written and oral communication skills. These play a big role in the development of internal auditors and help them to get evidence from auditees and provide a reasonable assurance to users of their reports. Cohen and Sayag, (2010), Leung and Cooper (2009), Arena and Azzone (2009) demonstrate that internal audit quality measured in terms of competence of internal auditors is subject to academic formal education, working experience and Continuous developmental programs.

Competence is defined by Jessup (1991) as "the ability to perform to recognized standards" Competency is skill that is essential to perform a certain task. Competency can be relate 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. A broad range of skills and expertise, and ongoing professional development are crucial to the formation and maintenance of an effective internal audit activity in fighting fraud. Some of the more important competences needed by internal auditors are in-depth knowledge of the organization's industry and internal audit Standards, and technical understanding, knowledge of implementing and improving processes in both financial and operational areas and professional Certification, e.g. CIA, and ACCA. According to Harrington (2004), an expanded set of competencies is needed by internal auditors to cope with the massive change and complexity in both private and public sector operations.

Auditors' competency determines the effective auditing in the organization. It contributes to the Ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of IA. Mihret & Yismaw (2007) concluded in their study that IA office constantly face the problem of low technical staff proficiency and high staff turnover, which would limit it capacity to provide effective service to management. Likewise, Kidaet al (2011) found in their Study that, IA can effectively carry out their duty in the public sector if there is enough IA Personnel with required competencies. Competency of auditors determines the quality of the Audit work performed in an organization. Internal auditors have to own the knowledge, skills and other competencies demanded to achieve their role in fighting fraud in governmental and nongovernmental organization. As stated by IIA (2009), knowledge, skills and other competencies is a collective term that refers to the profession proficiency required of internal auditors to effectively carry out their professional responsibilities. The knowledge, skills and other competencies would enable internal auditors to plan their audit work properly, perform and communicate on timely basis the findings and recommendations to the right people Abudu Dawuda, (2010).

The IIA (1210.A2, p. 6) requires internal auditors to have sufficient knowledge to evaluate not Only the risk of fraud but also the manner in which the organization manages that risk. Internal Auditors are expected to have sufficient knowledge to evaluate the risk of fraud in their Organizations, and are required to report to the board any fraud risks found during their Investigations. Further ISA (2005) indicate that the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to Fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

With regards to professional competence, (International Standards for Professional Practice of Internal Auditing) ISPPIA encourages internal auditors to obtain and update prior information about internal auditing, so as to be able to carry out assigned duties effectively. Alzeban and Sawan (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. Abu-Azza (2012), Haimon (1998), and Obeid (2007) found that competence of internal auditors positively related to perceived IA effectiveness that has irreplaceable contribution in fighting fraud. This study seems to corroborate Fadzil, Haron& Jantan (2005) suggestion that due to the perceived difficulty in ensuring internal auditors have the necessary knowledge; it is difficult to confirm key control areas of business processes within the organization's control. So therefore, the role of the internal auditors depends on their professional training and practical abilities and experience to fight against asset misappropriation and financial statement fraud in public offices. Petraşcua et al (2014) argued 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. Further, 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-Twaijry, A. A. M., Brierley, J. A. & Gwilliam, D. (2004)). This shows that sufficiently large number of skilled Professionals enables the IA to do its duties. One aim of this research is to study the impact of competencies in enhancing auditing to clash against fraud in the context of Ethiopia within the global environment.

2.3.3 Internal Auditors' Objectivity

The internal auditor’s objectivity refers to unbiased mental attitude that allows internal auditors to perform engagements in a way that they demonstrate and apply honesty in conducting their assignments which enhances the quality of their report and opinion Alzeban & Gwilliam, (2012) and IIA, (2009).

The internal auditor has to report objectively all the findings from the work he or she has done. Thus, the auditor must be in full awareness about the whole management process and overall objectives and then maintain objectivity in order to increase the reliability of information to be reported to decision makers or higher levels of the entity, such as audit committee and board of directors IFAC, (2010). Abernathy, Barnes & Stefaniak (2013) demonstrated that the objectivity of the internal auditors enhances the management quality, moderates audit risks and helps auditors to issue a reasonable and credible audit opinion with supporting evidence Al-Matarneh, (2011); Hellman, (2011); Stewart & Subramanian, (2010) and Cohen & Sayag, (2010).However, in public institutions it is very difficult for internal auditors to be objective in all matters regarding their work. This is based on the fact that leaders of public institutions are Direct supervisors of internal auditors. These leaders may have employed the internal auditors or Influenced their employment, pay their salaries, approve their leave, and appraise them for promotion and generally contribute to their development. Therefore, it is evident that in most cases, these Leaders exert over-bearing influence on the internal auditors who may be faced with self-interest and intimidation threats. In scenarios of this nature, it becomes difficult for internal auditors to be objective and work without any leadership influences from their managers (leaders) Cohen & Sayag, (2010).

2.3.3 Knowledge gap Identification

Generally, The review of empirical studies reveals that most of the studies were outside Ethiopia, but there are few studies work on internal audit challenges in Ethiopia but they are not cover all component of internal audit practices. For example, Alamirew mebratu, (2015) do not investigate challenges of internal auditor activities relating to planning, executions, reporting, follow up, independence, competence & job satisfactions. but only the management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, and Lukas Beyash (2015) had also evaluates only challenges in relation to independence, education, training, experience ,job satisfaction and staff capacity. Fekadu, (2009) present evidence on the internal audit practices & challenges on Ethiopian governmental higher educational institutions, to obtain the required information only open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data without considering qualitative approach to analyze and interpret. And Hailemariam, (2014) do not investigate the quality assurance, planning and risk assessment and reporting follow-up, but only the management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, through the questionnaires administered without considering interview and document analysis. Mulugeta, (2008) on the other hand focuses on challenges associated to the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness. Therefore this study uses questionnaire and interview research tools and plays a vital role for the following reason,

- There is no comprehensive study to examine current challenge and its future of internal audits in economy sector public body.
- It will pave the way forward for the government, and other stakeholders to understand the current major challenges of internal audit function in such sector which administer huge capital project. Finally, this study improves the knowledge of internal auditing in public sector offices. The following chapter provides details of the research method in respect of the identified research problem

CHAPTER THREE

3 RESEARCH DESIGN & METHODOLOGY

3.1 Research design

The type of research employed for the purpose of this study is descriptive in nature, because, the researcher has no control or effect on the variables of the study. It was intended only to investigate the critical challenge of internal auditors in performing the audit process in federal economy sector ministries.

Descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting Seiliger and Shohamy (1989); McDonough (1997). Thus, descriptive study was chosen using primary and secondary source of data to examine the basic challenges of internal auditors in performing audit activities at each level of the audit procedures. Moreover, in order to achieve the intended objective, both quantitative and qualitative methods were chosen by using purposive sampling technique. The analysis of quantitative data and interpretation of qualitative data was combined to seek convergence among the results (Creswell, 2003, pp. 222). Hence, the convenient research design considered suitable for this study was descriptive case study.

3.2 Data sources collection methods and instruments

The main sources of data are primary data. Personal (face to face) short Interviews were made with internal audit directors, team leaders. Interviews include oral questions asked and responses collected orally, having advantages of collecting more information with clarity but requiring more time and money specially if the respondents are large in number. Interviews can be structured (with predetermined questions asked orderly) or unstructured (flexible in the order of questions asked).This study used structured types of interviews.

The methods used in collecting primary data are a questionnaire. A questionnaire is a series of questions asked to individuals having the advantages of being quite inexpensive; easy to protect privacy of respondents; and easily corroborated with other methods of data collection.

In general, there are two types of questions asked using questionnaires, open format and closed format. In open format questions, there are no predetermined set of responses and the respondent is free to answer. Closed ended questions usually take the form of multiple choice questions. Questionnaires with both closed-ended and open-ended questions (see appendices) were prepared and distributed to selected finance and audit department head and experts of the organization. In addition questionnaires are in the form of Likeret-Scale type that shows respondents agreement or disagreements by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree. The questionnaires were adopted and modified from Ministry of finance of tanzania (2012) due to the fact that it meets the IPPF standards and *Internal audit standards &quality assurance mannual* MOFEC. (2007-2009).

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 audit planning of IA, Evaluation of audit evidence, reporting and follow up of audit result, independence, competency and job satisfaction. In addition, observations of some planning, evaluating and reporting procedures followed by the auditors were made in order to have an insight in to the actual field work and identify problems which may not be easily found using the other methods.

Secondary sources of data were obtained from different sources like, Proclamations, articles, Audit manuals, OFAG & MOFEC reports, internal audit reports, are some of the documents used to analyze data related to internal audit activities identified in the study.

3.3 population, sample size and Sampling techniques

Since this study mainly focus on the major current challenges of the internal audit function in selected major economy sector ministries. There are 34 ministries in the government organ and 133 public bodies under the level of agencies, commission, office, institution, universities that are directly accounted to each ministry which are administering and managing 320,803,599,160 ***birr (According to the 2010 federal budget proclamations including***

subsidies to the regions &SDG,s). There are classifications of ministries according to their function these are Social sector, Economy sector and Administration &General Services sector. And there are 11 ministries /total population/ under the economy sector from these 11 ministries of this sector, 8 are selected purposively and a total of 80 questionnaires are distributed but 68 respondents are involved in the study. The respondents are selected from both audit and finance categories assuming that reliable and valid information can be obtained. The respondents include, head of internal audit, team leader, senior auditor, head of finance department and senior finance expert. And these respondents will purposively select as the target groups for this study. The reason why purposive sampling technique used were:

1. Government allocated substantial amount of capital budget in economy sector public ministries than social and administrative sector public body (below are tables which shows 2010 consolidated federal government sector wise budget allocation)

Budget phase: ***approved*** ***(in billion birr)***

BI CODE	Federal public body sector	Treasury	Revenue	Assistance	Loan	Total budget
100	Administrative and general service	6,626.53		151.67	2020.924	8,799.12
200	Economy sector	46525210	302,457	6757.789	17419.378	71007.834
300	social sector	23385.997		7432.89	573.157	31392.045
	total	**46,555,222.52**	**302457**	**14,342.35**	**20013.459**	**111,199.00**

Source: (MOFEC 2010 consolidated federal government capital budget).

From the table government spent 63.86% of the total capital budget for economy sector service like water, roads, agriculture, and industry.

2. Government offers great attention for such service due to the fact that developing infrastructure is a key issue for investments as well increasing the countries productivity.

3. The continuous adverse and disclaimer audit opinion disclosed by the general audit findings to the public (Office of Federal Auditor General from 2007-2009). *Audit Report Summited to Ethiopian Parliamnt.* are some of the reason which draw the researcher's attention to use purposive sampling technique to make the study.

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 (Carver1978; Cohen 1990; Neumann 2006; Patton 1990). Accordingly 8 selected economy sector federal public ministries are purposely selected from the total populations, these are:

1. Ministry of agriculture
2. Ethiopian agricultural institute
3. ministry of water, irrigation and electricity
4. Ministry of information communication technology
5. Ministry of mine, petroleum and natural gas
6. Ministry of urban development and housing,
7. Ministry of transport (Ethiopian road authority)
8. Ministry of finance and economic cooperation

3.4 Data analysis and discussions methods

Qualitative and Quantitative analysis are used as data analysis technique. Primarily the data was collected through the questionnaires & short interview analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, and analyzed to present the research findings

The data were then presented in the form of tables, charts, graphs and explanatory narrations. Tables of frequency distributions and cross tabulations were mainly used in helping the descriptive analysis. Frequency distribution tables were used for summarizing (e.g. counts, percentages etc) of data related a single variable or issue under consideration. For analyzing two or more variables or data classified with two or more characteristics cross tabulations were used which show frequency counts, percentages and summary for individual variables as well as for the variables as a whole. In addition to the tables, charts and graphs were also used

for specific and general questions related to the study. Furthermore the use professional articles, auditing standards, principles, and other related issues were very much significant in analyzing the data.

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

This chapter discusses challenge of internal auditors in performing their audit activities in federal economy sector ministries. Therefore, the study presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from internal auditors and accountants 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 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 constructed. The analysis was based on the research questions. Data was analyzed through a descriptive statistics to provide details concerning question relating to planning, evaluating, reporting, monitoring audit activities, in addition Variables related to independence, competencies & job satisfaction also analyzed regarding public ministries. Data from questionnaires are summarized, edited, tabulated and analyzed.

Qualitative and Quantitative analysis are 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, and analyzed to present the research findings. Analysis of the data is based on potential challenge in which internal auditors face at planning, evaluating, reporting and monitoring audit activities, and areas related to independence, competencies & job satisfaction The study targeted a sample size of 80 respondents from which 68 filled in and returned the questionnaires making a response rate of 85% This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick& Bowen (1996) recommended a response rate of 70%.

4.1 Characteristics of the Respondents

The sample respondents used in this paper are classified in to five and the structured questionaires (attached in appendix 1) were distributed to audit director,audit teamleader, senior auditor,finance director and accountants of 8 purposively selected federal government ministries. from the distribution of 80 questionaire 68 questionaires were collected 8 response from audit directors,10 from audit team leaders,27 from senior auditors,9 from finance directors and 14 from accountants which gives a response rate of 85% and indicates good response rate.

4.2 Demographic characteristic

Below are the characteristics of the respondents presented in terms of Genders, Status, Level of Education, Profession and Service years.

Table 1 Gender profile

Demographic questions		Response											
		Audit director		Audit team leader		Senior auditor		Finance director		Accountants		Total	
		frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
Gender	Male	4	50	6	60	14	51.8	5	55.5	8	57.14	37	**54.41**
	Female	4	50	4	40	13	48.2	4	44.5	6	42.86	31	**45.58**
	Total	8	100%	10	100%	27	100%	9	100%	14	100%	68	**100%**

Source: survey data 2017

As shown from the above response table the number of male respondents (54.41%) was moderately higer than that of fmale respondents (45.58%) although there are male dominations in such sector public body both genders are involved in this study.

Table 2 Educational background

Educational qualification		Audit diretor		Audit team leader		Senior Auditor		Finance Director		Accountants		Total	
		frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
	Diploma	0	0	0	0	0	0	0	0	0	0	0	0
	BA Degree	6	75	9	90	26	96.3	7	77.78	14	100	62	91.2
	Masters Degree	2	25	1	10	1	3.7	2	22.22	0	0	6	8.8
	PhD	0	0	0	0	0	0	0	0	0	0	0	0
	Total	8	100	10	100	27	100	9		14	100	68	100

(Number of respondents spans the Audit diretor through Total columns.)

Source:survey data 2017

As a findings shown from the above table 2 regarding the level of educational back grounds, from the total number of respondents 62 (91.2%) have bachelor's degree and 6(8.83%) have master's degree and there was no respondents from both category who have diploma and doctrate degree. There fore, this is an indication that majority of the respondents involved in this study had university degree as their highest level of education which can contributes more information on the intended work in this study.

while, from the audit category (6)75% of the total audit directors have bachelor's degree holders and the remaining (2) 25% had masters degeree. and 9 (90%) of the total audit team leader's have bachelor's degree and only one respondents(10%) had master's degree. While from the total senior audit experts 26(96.3%) have bachelor's degree and 1(3.7%) had master's degree. This shows that majority of the respondents have bachelor's degree which enables them to provide the available information for the study which made them to have an ideas regarding the basic challenges they face in their day to day operation of audit process.

On the other hand, from the finance category, the majority of finance directors as well as accountants have bachelor's degree 7(78.78%) and 14(100%) respectively. Only finance directors who had masters's degree 2(22.22%). There was no doctrate degree and diplomas from both categories. Simillar to that of an auditors, the majority of the respondents have bachelor's degree which enable to provide sufficient and reliable information for the study.

Table 3 Respondents experience

years of experience	Response											
	Audit directors		Audit team leader		Senior auditors		finance directors		Accountants		Total	
	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
0-5,	0	0	0	0	0	0	0	0	2	14.2	2	**3**
5-10,	0	0	1	10	7	26	0	0	4	28.5	12	**17.6**
10-20,	3	37.5	3	30	11	40.7	4	44.4	3	21.6	24	**35.2**
20 & above	5	62.5	6	60	9	33.3	5	55.5	5	35.7	30	**44.2**
Total	8	100%	10	100	27	100%	9	100%	14	100%	68	**100%**

Source: survey data 2017

The above table reveals that, the distribution of years of experience that the respondents had with working in the auditing profession was fairly spread out among the categories. Out of 45 respondents of auditors, team leaders and audit directors, 8 respondents (17.7% of total respondents) represent a group that covers 5-10 years of experience. 17 (37.7%) of the respondents are found under the range of 10-20 years of experience in auditing. Whereas, the group that is most represented is greater than 20 years of experience which involves 18 respondents under each range with a 40% of the total respondents. This shows that the auditors are sufficiently experienced, but there was no respondents comprises below 5 years of experience.

With regards to finance categories, from the total 23 respondents of finance directors, accountants 7(30.5%) of the respondents represents 10-20 years of experience while 10 (43.5%) of the respondents found within the range of 20&above however, the rest of the participant 26% comprises below 10 years of experience.

The data concludes that, all of the auditors have more than 5 years of experience working in the auditing profession and This shows that the audit respondents are well experienced working as an auditor which may make more effectives in performing their audit engagements

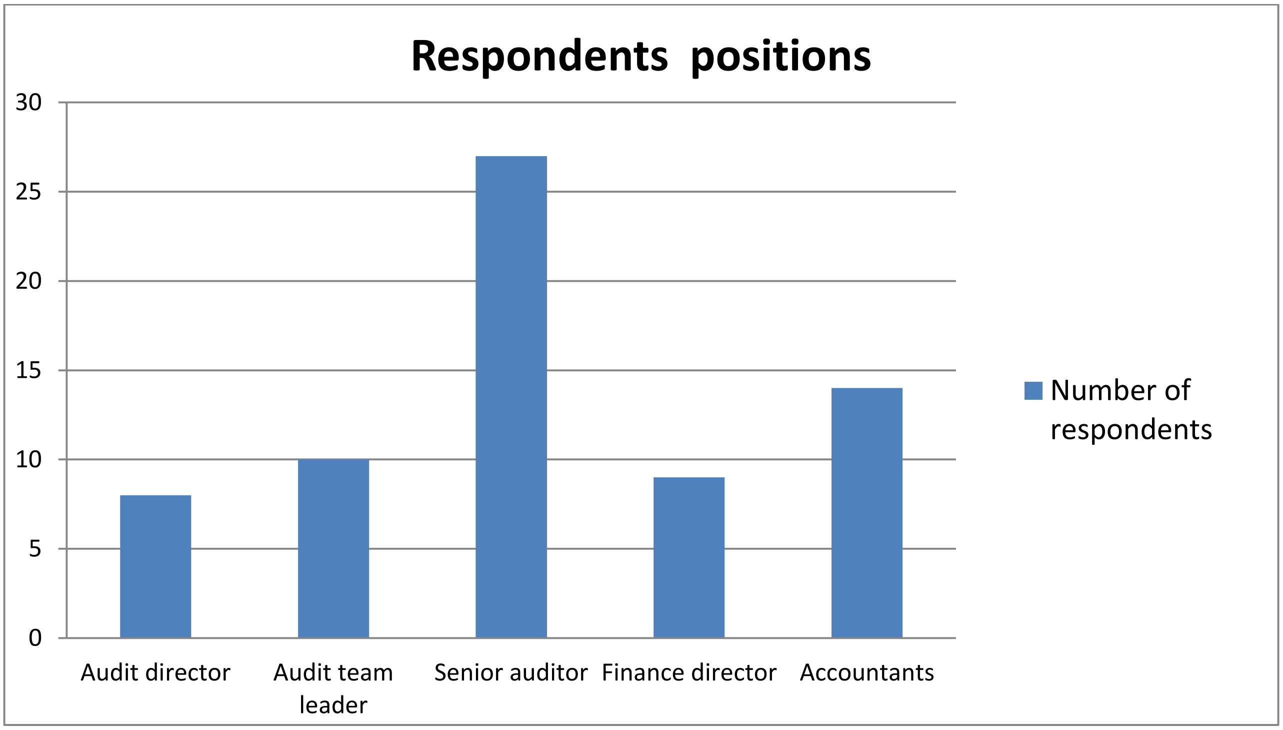
Proffessions of the respondents

Field of study	Number of respondents	percentage
Accounting	62	91%
Business management	4	6%
Economics	2	3%
statistics	0	0
others	0	0
Total	68	100%

Source: survey data 2017

As it is indicated above, almost 62(91%) 0f the respondents are accounting profession which is directly related to the job position of both catagories while the remaining 4(9%) are business management and economics. In case of professional certification As per (MOFED, 2009. federal public bodies human resources data of internal auditors) shows that there was no internal auditors in federal public bodies who have a professional certification like ACCA,CIA,CPA. And all the 68 respondents of each categories have no any professional certification. This will indicates that there could be lack of details skills and expertise to play a significant role in performing their audit activities with global competencies.

Respondents status



Source: survey data 2017

As shown from chart 1 above, from the total respondents 27(39.7%) were senior auditors, 14(20.5%) were accountants, 10(14.7%) were audit team leaders while the remaining 9(13.2%) and 8(11.7%) were finance directors and audit directors respectively.this indicates that auditors are the major participants in responding questions and their roles are clearly observed from the answers provided.

4.3 planning of internal audit in performing audit activities

Based on the following statements described in table 4 has also required to set a level at which the respondents shall agree or disagree relating to planning of internal audit activities. According IIA's International Standards for the Professional Practice of Internal Auditing *(Standards) revised 2012,* The audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals and On the basis of the strategic plan the detailed annual plan should be prepared. This is practical in the federal public ministries where the survey result shows that strategic and annual audit plan is prepared and implemented. The outcome indicates that, 45.5% and 23.5% agree and strongly agree respectively on both the statements that internal auditors prepare &implemented strategic and annual plan in the organization shown by mean of 3.6. Whereas 5.8% of the respondents strongly disagree and 12% disagree, 13% of the respondents are neutral with both statements.

Table 4 Planning of internal audit response

	Statements	frequency					
No	1. Audit planning	strongly disagree	disagree	Neutral	Agree	strongly agree	Mean
1	Strategic audit plan is prepared & implemented in your organization	4	8	9	31	16	3.6
2	From the strategic audit plan Annual audit plan is prepared &implemented in your organization	4	9	11	30	14	3.6
3	Detailed Audit work program and internal control questionnaire is prepared based on the annual audit plan	10	27	19	7	6	2.4
4	Appropriate audit staff are assigned for which the audit responsibilities demand.	4	13	12	34	5	3.3
5	Risk assessment is done as part of annual audit planning	13	29	12	10	4	2.4
6	Internal Audit has adequate resources that are appropriate, sufficient and effectively deployed to achieve the Internal Audit Plan	10	27	17	12	6	2.45
7	The head of internal audit held a meeting with staff to discuss on the audit plan before approval for all aspects of the audit activities to be undertaken.	6	15	10	12	25	3.2

Source:Survey data 2017

According to Minstry of Finance and Ecnomic Development of ethiopia. (2005). Internal Audit mannuals, Internal auditors must develop and document the detailed work programs that achieve the engagement objectives which enables the auditors identifying, analyzing, evaluating, and documenting information during the engagement. In the above tables of the survey result indicates that detailed audit work program &internal control questionnaire is not implemented in such federal public ministries as shown by mean of 2.4. this result is similar with Kedir H. et al. (2014, October) The result shows that audit work program &internal control questionnaire's is not prepared (14.7% strongly disagree and 39.7% disagree) while the other respondents are 10.3% agree, 8.8% strongly agree and the remaining 27.9% are neutral. From the analysis it can be concluded that auditors who fails to perform audit work program are challenged to identify, analyze, evaluates and documenting information during audit engagement.

In case of assigning of auditors with anticipated job responsibilities (table 4 item 4) most of the respondents (50% agreed and 7.35% strongly agreed)as indicated by mean of 3.3 which indicates that internal auditors job division is appropriate in a sense that they should assigned with respects to their own skill and experience. The other respondents (5.8% strongly disagree, 19.11% disagree) the remaining 17.6% are neutral with the statements. Appropriate assignment of experts in the audit field wills leads to effective and acceptance of assurance &consulting audit service to the management.

It is the role and responsibility of internal auditors to ensure that organizational risks are assessed and managed as well as to ensure effective control of all organizational activities by monitoring and suggesting the effective policies, procedures and mechanisms that ensure management's directives are properly carried out towards the achievements of goals (Aikins, 2011; Vijayakumar & Nagaraja, 2012). Concerning risk assessments done as part of audit planning as shown (table 4 item 5) of the survey result indicates that (19.11% strongly disagreed, and 42.6% disagreed) with the statements. But 14.7% and 5.8% of the respondents agreed &strongly agreed respectively and the remaining 17.6% are neutral which shown by a mean of 2.4. This shows that an internal auditor doesn't perform risk assessment as part of their audit planning which was similar to the survey result of Alemayehu etana(2016 jan) but the only difference is it related to risk assessment pertinent to fraud. Therefore, the result conclude that Since economy sector public bodies manage several capital projects, billions of capital budgets are allocated and hence it demands risk assessment in identifying which projects are needs to be audited before head of the internal audit is responsible for developing engagement plan.

As observed (table 4 item No 6) majority of the respondents 54.41% (14.7% strongly disagree and 39.70 disagreed) reacts negatively with the statements. Which indicates that internal auditors lack engagement resource allocation like time constraints, and available resources to achieve audit objectives. On the other hand 17.6% agreed and 8.8% strongly disagreed and the remaining 25% of the respondents are neutral.

With regards to the questions of whether internal auditors made a meeting /making discussions with the audit staff on the issues of audit plan before its approval majority of the respondents 54.4%(36.7% strongly agree, and 17.7% agree) with the statements. While 30.8% of the respondents (22.5% disagree, and 8.3% strongly disagree) reacts it's a challenge for internal auditors to make discussion of audit activities with the management at the planning stage, but he remaining 14.7% of the respondents are neutral.

Generally, for every audit assignment a detailed plan of work should be prepared. The plan should establish detailed objectives of the assignment, resources requirement, outputs, target dates and other issues. The plans have to be discussed with Head of the public body or Audit Committee and agreed upon. This enables to take into account any concerns of the Head of public body and Audit Committee over policies, procedures and operations in the relevant audit area. Therefore, in addition to the above survey result short interview also made with head of internal audit team leaders which indicates although internal auditors prepare strategic and annual audit plan most respondents asserted that risk assessments as well as detailed work program is not conducted or done by the public bodies internal auditors, Which is a key issue for an auditors specially in economy sector public bodies. And sufficient resource which enables to achieve their audit plan is also a challenge for them.

4.4 Audit evaluation

The Internal Auditor should have a sound understanding of the techniques and procedures such as inspection, enquiry and confirmation, to examine & evaluate audit evidences. The Internal Auditor should ensure that the procedures employed are sufficient to reasonably detect all material errors and irregularities. The Internal Auditor should also give consideration to the quality of evidences in choosing the techniques and procedures to be employed.

The response result in table 5 item 1 below indicates that head of the internal audit is not supervise the audit work regularly which is shown by a mean of 2.6. Most respondents disagreed (39.7% strongly disagree, and 16.17% disagreed) while (17.6% agreed and 5.8% strongly agreed) and 22% neutral with the statements.

Table 5 Audit evaluation response

	statements		frequency				
No	2. Audit Evaluation	strongly disagree	disagree	Neutral	Agree	strongly agree	Mean
1	Head of the internal audit regularly supervises the audit field work	11	27	15	12	4	2.6
2	Audit findings are supported with sufficient, and accurate audit evidence	4	6	13	30	16	3.75
3	Adequate sample is taken for evaluating audit evidence	3	5	17	33	10	3.6
4	There is discussion on audit queries feedback with a concerned body before exit meeting	2	4	10	40	15	4
5	Audit recommendations are supported with working paper	2	3	12	36	14	4.1
6	There is a consistent and documented practice for conducting internal audit engagements and preparing working papers	8	31	15	10	4	2.5
7	Internal auditors consider materiality issues	13	27	8	12	8	2.5
8	Internal auditors have full access to records and information they need in conducting audits	1	11	13	31	11	3.5

Source: survey data 2017

In principles, an audit findings should be supported with sufficient, reliable, relevant, and useful information to achieve the engagement's objectives . as per the data collected from table 5 item 2 show 67.6% of the respondents agreed with the statements that shown by the mean of 3.75 (44.11% agreed and 23.49% strongly agreed) while 5.8% strongly disagree and 8.8% disagree and the remaining 19.11% of the respondents are neutral.

With regards to audit samplings, the internal auditor can arrive at valid conclusion using audit sampling. 'Audit sampling' means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable auditors to obtain and evaluate audit evidence about some characteristics of the items selected. As in dictated table 5 item 3 of the survey result, the federal public body's internal auditors take adequate sample for evaluating audit evidence. 63.23% of the respondents agreed with the statements i.e. (48.5% agreed and 14.7 strongly agreed) while 11.7% of the respondents disagreed (8.8% strongly disagree and2.9% disagree) and the remaining   25% were neutral.

In practice, Internal auditors should analyse the audit findings in the standardised audit queries format and it should be given to the audit customers and the audit customers has to return the feed back before the final exit meetings. Based on the data collected from table 5 item 4 above internal auditors   make discussion on the audit findings with the audit customers before exit meeting shown by a mean of 4. 80.8% of the respondents agreed i.e.(40 agreed,15 strongly agreed) with the statements, where as 8.8% of the respondents are disagreed i.e. (2 strongly disgree,4 disagree) and 10.4% of the respondents are neutral. Therefore ,the result shows there is discusion with auditee with the feed back given on the audit queries which enable the auditors to reach on a valid conclusions before exit conference.

Accordingto Ministry finance of tanzania (2012). *Internal audit standards &quality assurance mannual.* Audit working papers should be designed in such a way that they provide the principal evidential support in the planning, performance and review of audits and documents whether audit objectives were achieved. The Internal Auditor should keep in mind that the content and arrangement of the working papers reflect the degree of the Internal

Auditors' proficiency, experience and knowledge. On table 5 item 5 above revealed that internal auditors audit recommendations are supported by audit working papers shown by a mean of 4.1. 73.5% i.e. (36 agreed, 14 strongly agreed) of the respondents are agreed with the questions while 8.8%i.e. (2 strongly disagree, 3 disagreed) disagreed respectively and 17.7 % of the respondents are neutral.

As procedures, the Internal Auditor should follow standardized policies for the types of audit working paper files maintained, stationery used, indexing and other related matters. Each working paper should show the name of the public body being examined, the title or description of the contents or purposes of the working papers, and the date or period covered by the audit. Each working paper should be signed, dated and cross-referenced. As indicated in the above tables item 6 the majority of the participants respond there is no consistent and documented practice in conducting audit engagement and preparing working paper shown by a mean of 2.5. 57.35 % i.e. (8 strongly disagree, 31 disagree) disagreed with the statements but 20.8% i.e. (10 agreed,4 strongly agreed) agreed respectively, and the remaining 21.85% of the respondents are neutral.

With regards to materiality issues, as shown table 5 item 7 internal auditors do not consider materiality in conducting audit engagement shown by a mean of 2.5. Majority of the participants 58.8% i.e. (13 strongly disagreed,27 disagreed) reacts disagreed with the questions and 28.4% i.e.(12 agreed,8 strongly agreed) agreed with the statements . The remaining respondents 11.7% are neutral. This result shows that internal auditors are not focusing on the big pictures of the entity which can add value to the public bodies which is similar to the survey result of Lukas Beyash (2015) . In case of full accessibility of information in conducting audit it's not a challenge for internal auditors as can be seen in the last sentences above 61.7% i.e (31 agreed,11 strongly agreed))of the respondents agreed with the questions and 17.6% i.e. (11 disagreed, 1 strongly disagreed),however 19.11% of the respondents are neutral.

In general, the result from the survey relating to audit evaluation discloses challenges to audit execution in performing audit function. Since Government allocated substantial amount of capital budget in economy sector public ministries than others sector. Internal auditors are fails to consider materiality issues in conducting audit engagements. And also periodic supervision is not done by head of the internal audit and there is lack of consistent documented practice in conducting audit engagement and preparing working paper in budgetary public ministries.

4.5 **Reporting of internal audit result**

In principles, after the audit examination is completed, the Internal Auditor should discuss conclusions and recommendations at appropriate levels of management and issue a signed, objective, clear, concise, constructive and timely written report with appropriate format (content). The report should be addressed to the Head of the Public Body and should not be issued to third parties without his knowledge.

As per the response results in table 6 item 1 below it is noted that the internal audit engagement reports are submitted to the management and third parties as per the schedules shown by mean of 3.5. Majority of the participants 58.8% agreed i.e. (27 agreed, 13strongly agreed) and 26.47% disagreed i.e.(3 strongly disagreed,15disagreed) with the statements. However 16.17% of the respondents are neutral. This result shows that there is on time submission of audit reports that can be helpful for taking corrective action on time. Besides the short interview made with the head of the directors reveal that due to strong follow up and the newly punishment directives implemented by MOFEC which penalize those who delays the reports enhance early submission of audit reports.

Table 6 Audit reporting reponse

	Statements	frequency					
No	**3. Audit Reporting**	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**strongly agree**	**Mean**
1	Internal audit engagement reports are distributed to management and MOFEC in a timely way	3	15	11	27	13	3.5
2	The management as well as MOFEC is satisfied with the clarity, structure, reliability and content of internal audit reports	13	26	13	10	6	2.55
3	Finance department reports monthly Financial report to internal auditors for audit engagement on time	10	13	10	25	10	3.17
4	Exit conference is always made with Audi tee's for discussion before the report is disclosed	0	7	0	27	34	4.2
5	There is no restriction by management to includes material audit findings like fraud actions in the report	12	26	9	12	9	2.7

Source:survey data 2017

Regarding question No 2 on the table shown above, disclose that the stakeholders especially (the managements, and MOFEC) is not satisfied with the clarity,structure,reliability and contents of internal audit reports shown by mean of 2.55. Majority of the participants 57.3% disagreed i.e. (13 strongly disagreed, 26 disagreed) 20.5% agreed i.e. (10 agreed, 13 strongly agreed) with the questions. Whereas 19.11% of the respondents are neutral. From this result we conclude that internal audit reports are not disclosed as per the standards of IIA. The interview result also indicates that there is lack of skill, as well as neglegence on how to prepare audit report based on the standards.

Based on the survey results, table 6 item 3 above Explain that monthly closed financial reports disclosed by finance department is submitted a copy to the internal auditors for audit engagement purpose as per the schedule 51.4% (25 agreed,10 strongly agreed) of the respondents agreed and 33.8% (10 strongly disagreed, 13 disagreed) disagreed with the statements,while 14.3% of the respondents are neutral. The result show that closed financial reports are submited to the internal audit unit as per te schedules.

In practice, the purpose of the exit conference is to discuss the highlights of the audit findings with the auditee's and/or the responsible official who has sufficient knowledge about the audit area. It also provides an opportunity to get the auditee's comments (management comments) and insights about the significant audit issues as a way of validating the audit findings. Management's comments should be taken into consideration so as to arrive at workable recommendations and obtain the auditee's commitment to wards performing remedial actions INTOSAI, (9100) *Guidelines for internal control standards for the public sector.* As shown the table internal auditors of the public ministries made exit conference before approvals of the final reports 89.7% of the participants agreed (27 agreed ,34 strongly agreed) and 10.3% disagreed i.e. (0 strongly disagree 7 disagree) with the question.

Concerning restricting internal auditors by management not to include fraudulent actions in the report in budgetary institutions are still a challenge shown by 2.7 which is similar to the survey result of Alemayhu Eana(2016 January) in his research the role of IA in detecting frauds in public ministries. 55.8% of the respondents disagreed i.e. (12 strongly disagreed, 26 disagreed) and 30.8% agreed i.e.(12 agreed,9strongly agreed) with statement but 13.4% of the participants are neutral.

In conclusion, the survey result with related to audit reporting show that internal audit reports are not prepared as per the standards it lacks clarity, and reliability of the overall structure of the reports, and also there is some limitation imposed by managements not to includes material audit findings in the reports in such sector public bodies

4.6 Audit follow up

Follow-up is a monitoring and feedback activity undertaken to ensure the extent and adequacy of preventive/corrective actions taken by the Management to address the inadequacies identified during the audit. It aims to increase the probability that recommendations will be implemented.

The response result in table 7 item 1 below indicates that management set action plan and made follow to take corrective action which is shown by a mean of 3.26. Majority of the respondents 57.3% agreed (7 strongly agree, and 32 agreed) while 29.4% disagreed (12 disagreed and 8 strongly disagreed) with the statements and 13.3% of the respondents are neutral with the questions. And the issues of internal auditors responsibility to establish periodic follow up process to ensure that corrective actions to be taken is practical as its shown below table 7 item 2 which result in 60.4% of the participants agreed (32 agreed, 7strongly agreed) and 22% disagreed (6 strongly disagreed ,9 disagreed) with the statements provided in the questionnaire where as 17.6% of the respondents are neutral.

Although management set action plan they are reluctant to take correctives actions on the audit findings specially the OFAG reports as its shown by a mean of 2.6 which is the same as the survey result of Alamirew mebratu, (2015). Internal audit function and its challenges in public sector governance. the last sentence indicates that 58.8% of the respondents disagreed i.e.(5,strongly disagreed, 35 disagreed) and 23.5% agreed (10, agreed, 6 strongly agreed) with the statements while only 17.6% of the participants are responds neutral. Moreover the interview result has also indicate that, taking corrective actions by the management is still a challenge this is due to a long time problems of the organizations financial performance system and un able to react the audit recommendations on time also became the major problem .

Table 7 Audit follow up response

	statements	frequency					
No	**4. follow up audit result**	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**strongly agree**	**Mean**
1	Management set action plan and follow up to take corrective action on the audit finding	8	12	9	32	7	3.26
2	The internal auditors establish periodic follow up process to ensure that corrective action have been effectively implemented	6	9	12	34	7	3.4
3	Management takes correctives action on the external audit findings /OFAG report/ on time.	5	35	12	10	6	2.6

Source: survey data 2017

4.7 Independence of internal audit in performing audit activities

In principles, internal audit should be sufficiently independent of the activities, which it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The survey result Table 8 item 1 below reveals that internal auditors have un restricted access /communication to all departments and employees in the organization shown by a mean of 3.4. 58.8% of the respondents agreed i.e. (33 agreed ,7strongly agreed)

Table: 8 Independence of internal audit response

	statements		frequency				
No	**7. Independence**	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**strongly agree**	**Mean**
1	Internal auditors have unrestricted communication to all departments and employees in the organization.	2	12	13	33	7	3.4
2	All internal audit members feel free to include any audit finding in their audit work and report directly to the responsible body	4	14	10	27	13	3.1
3	internal audit activities is empowered to be independent by its appropriate reporting relationship to excutive managements	6	10	14	26	12	3.8
4	Internal audit can freely access any necessary documents, information and data about the process under investigation and hence always acknowledged	2	15	12	25	14	3.5
5	Internal auditors are independent of management influence in exercising auditing-related decision	7	11	11	28	8	3.1

Source: survey data 2017

The data collected as per the above table of item 2 showed that internal audit members feel free to include any audit finding in their audit work and report directly to the responsible bodyas shown by a mean of 3.1. High percentage of the respondents i.e. 58.8% agreed(27agreed,13strongly agreed) and 23.5% (4 strogly disagreed, 14 disagreed) chooses disagree respectively. The rest 27.7%of the respondents responds neutral. This implied that there is no limitation to include and report audit findings to responsible body.

According to the survey result in table 8 of item 3 above, it is noted that internal audit activities is empowered to be independent by its appropriate reporting relationship to executive managements as shown by mean of 3.8. 55.8% of the respondents agreed (26 agreed and 12 strongly agreed) whereas 23.5% of the respondents disagreed (6 disagree and 10 strongly disagree on this issue.) but 20.7% of the respondents are neutral on this statement.

Table 8 item 4 above also confirm that Internal audit can freely access any necessary documents, information and data about the process under investigation and hence always acknowledged as point out by mean of 3.5. 57.3% of the respondents agreed i.e (25 agreed and 14 strongly disagreed) and 25% disagree i.e. (2 strongly disagree 15 disagree). And the rest 17.7% of the respondents are neutral with the statements.

Based on the data collected from respondents, Table 8 of the last sentence indicated that Internal auditors are independent of management influence in exercising auditing-related decision.52.3% of the respondents agreed i.e (28 agreed 8 strongly agreed) whereas 26.4% of the participants are disagreed with the statements i.e (7 strongly disagreed, and 11 disagreed) but the remaining 21.7% of the participants react neutral. The result emphasized that, management influence in making audit related decision is somewhat not an issues of internal auditors.

In genral, the results from the survey relating to independence shows that the auditors are independent of management which encourages auditors in performing their audit activities. Respondents explained that it is not difficult for internal auditors in the Ethiopian public sector to achieve independence as they are employees of the organization they audit. Beside It was also confirmed by short interviewing head of internal audit and team leader regarding independence they explain that following the recently amended financial administration proclamation No 648 which made the head and professional staffs of internal audit of public bodies shall be accountable to the minister of finance. This result in a significant change in the independence and objectivity of internal auditors in determining their audit scope, and performing their audit process without the interference of management.

4.8 Competencies of internal audit in executing audit engagement

Table 9 shows how participants responded to questions relating to competencies of internal auditor in performing audit functions. Responses to table 9 of question 1 below indicated general agreement with the statement that internal auditors do not have full competency in skill& knowledge in evaluating audit evidence as shown by mean of 3.3 which is the same as the survey result of Mihret A. And Yismaw W, (2007), Internal audit effectiveness: an Ethiopian public sector case study and Alemayhu Eana(2016 January). The Result implied that 57.3%of the respondents were agreed i.e. (25 agreed, and14 strongly agreed) that internal auditors have gaps in competencies in evaluating audit evidences, 20.5% disagreed i.e. (9 strongly disagree, and15 disagree) with the statements whereas 22.2% of the respondents are neutral.

Table 9 Competencies of internal auditor's response

	statements		frequency				
No	**5. Competencies of internal auditors**	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**strongly agree**	**Mean**
1	Internal auditors do not have full competency in skill& knowledge in evaluating audit evidence	9	15	5	25	14	3.3
2	Internal auditors are proficient in forensic skills /fraud detection	23	45	0	0	0	1.66
3	Internal auditors are proficient in computer assisted internal auditing system	20	33	11	4	0	1.98
5	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled.	15	27	15	8	3	2.36
6	The auditors in your organization are qualified to undertake audit function	5	8	11	27	17	3.6

Source: survey data 2017

In principle internal auditing is responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of control, commensurate with the extent of the potential exposure/risk in the various systems of an entity's operations. In carrying out this responsibility in such economy sectors budgetary institutions internal auditors are requires proficiency in forensic audit. Table 9 item 2 above reveal that 100 % of the respondents disagreed (23 strongly disagree, and 45 agreed) with the statements that Internal auditors are not proficient in forensic skills /fraud detection skills as shown by a mean of 1.66.

With regard to Internal auditor's proficiency in computer assisted internal auditing system as shown by item 2 above show that Internal auditors are not proficient in computer assisted internal auditing system (IT audit) which is indicated by a mean of 1.98. 77.9% of the respondent's disagreed. (20 strongly disagreed, 33 disagreed) that internal auditors are proficient in IT audit where as 5.8% agreed(4 agreed, 0strongly agreed) with the statement while 16.3% of the respondents are neutral. The result show that no internal auditors are proficient in computer assisted audit system in such budgetary institutions.

Table 9 items 4 of the survey result disclosed that internal auditors have the minimum requirements of skill, knowledge and experience in performing audit engagement. 61.7% disagreed (15, strongly disagreed, and 27 disagreed) with the statement and 16.17% agreed (8 agreed, and 3 agreed) with the statements. While 22.2% of the respondents are neutral. The result implies that there are minimum requirements of skill, knowledge and experience by internal auditors. In case of qualifications the internal auditors are qualified to undertake audit engagements as shown in the last statements item 5 above 64.7% of the respondents are agreed i.e. (27 agreed, 17 strongly agreed) with the statements and 19.11% disagreed(5strongly disagreed ,8 disagreed) and 16.17% are neutral with the questions provide respectively.

In a conclusion, the results indicated that although internal auditors have no full competency in skill and knowledge especially in areas of forensic audit (fraud detection) and IT audit. but, they have minimum requirement level of competency which can be improved through continuous professional development training. From the interview view point the respondents reveal that today use of IFMIS software program for financial data analysis and reporting in budgetary public ministries are increasing which demands internal auditors to use IT audit software . Therefore, it becomes a challenge for internal auditors to offer assurance service.

4.9 Working atmosphere /job satisfafction /of internal audit

Table 10 shows participants responded to questions relating to working atmosphere of internal auditor in performing audit functions. Responses to table 10 of question 1 below indicated general contradiction with the statement that internal auditors are adequately graded and remunerated according to their role and responsibilities as shown by mean of 2.47. The survey Result make known that respondents 57.3% were disagreed i.e. (26 disagreed and 13 strongly agreed) whereas 23.5% agreed i.e. (6 strongly agreed, and10 agreed) with the statements while 19.4% of the respondents are neutral. The result concluded that, there is no equal remuneration &grade among internal auditors in some federal budgetary public ministries. Which is similar to the survey result of Alamirew mebratu, (2015). Table 10 item 2 also confirmed that salary scale is not uniform as shown by a mean of 1.9. 79.4% of the respondents disagreed (29strongly disagree, 25 disagreed) with the statements, while 10.3% of the participants agreed (5 agreed, 2strongly agreed) respectively. However 10.3% of the respondents are neutral with the statements. This show that same salary for same grades is not implemented.

Based on the data collected from the respondents, table 10 item 3 revealed that, there is no special benefit given for internal auditors for their unique contribution in budgetary public ministries as shown by a mean of 2.23. 73.5% of the respondents disagreed i.e. (22 strongly disagreed, 37 disagreed) with the questions, while 3% agreed and the rest 23.5% of the respondents are neutral. This will show that there is no special benefit given to motivate them for their unique contribution.

In practice, Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development as shown table 10 item 4 below, there is no participating travel opportunities for internal auditors to conferences, audit work ,training etc. which enable them to upgrade their skill and knowledge in such budgetary public ministries shown by a mean of 2.47. 64.7% of the respondents disagreed i.e.(10 strongly disagreed,34 disagreed) and 20.5% are agreed i.e.(10 agreed, 7 strongly agreed) whereas 14.8% of the respondents are neutral with the statements.

Table 10 Working atmosphere of internal auditor's response

	statements		frequency				
No	**6.working atmosphere/job satisfaction of IA**	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**strongly agree**	**Mean**
1	Internal auditors are adequately graded and remunerated according to their role and responsibilities	13	26	11	10	6	2.47
2	Salary scale is uniform in all federal budgetary public bodies /same salary for same grades/	29	25	7	5	2	1.9
3	There is special benefit given for unique contribution in your institution.	22	37	16	2	0	2.23
4	There are participating travel opportunities to conferences, audit work ,training etc.	10	34	10	10	4	2.47
5	Internal auditors are provided with formal audit training courses	5	10	18	33	2	3.25
6	Internal auditors are acknowledged and their roles recognized in audit publication	17	26	11	11	3	2.36
7	The organization has a long & short term training plans for each internal audit staff	6	12	17	31	2	3.1
8	Internal auditor's recommendations are recognized and acted on	3	14	15	33	3	3.28

Source: survey data 2017

The respondents were also asked to their opinion whether Internal auditors are provided with formal audit training courses or not. The survey result indicated on item 5 in table above show that 51.5% of the respondents agreed i.e.(33 agreed , 2 strongly agreed) that there is formal audit training provided to internal auditors and 22.5% disagreed i.e.(5 strongly disagreed, 10 disagreed) with the statements , but the rest 26.% are neutral which was shown by a mean of 3.25. Hence, it indicates there is a formal training course give for internal auditors.

Regarding audit publications, internal auditors roles are not acknowledged through the media like magazines, newspaper and the like, the survey result also support this arguments as shown item 6 above in table 10 61.7% of the respondents disagreed i.e. (17strongly disagreed,26 disagreed) their roles are not encouraged through publications and 20.5% agreed.(11, agreed, 3strongly agreed) and the remaining 17.8% are neutral with the statements indicated by a mean of 2.36.

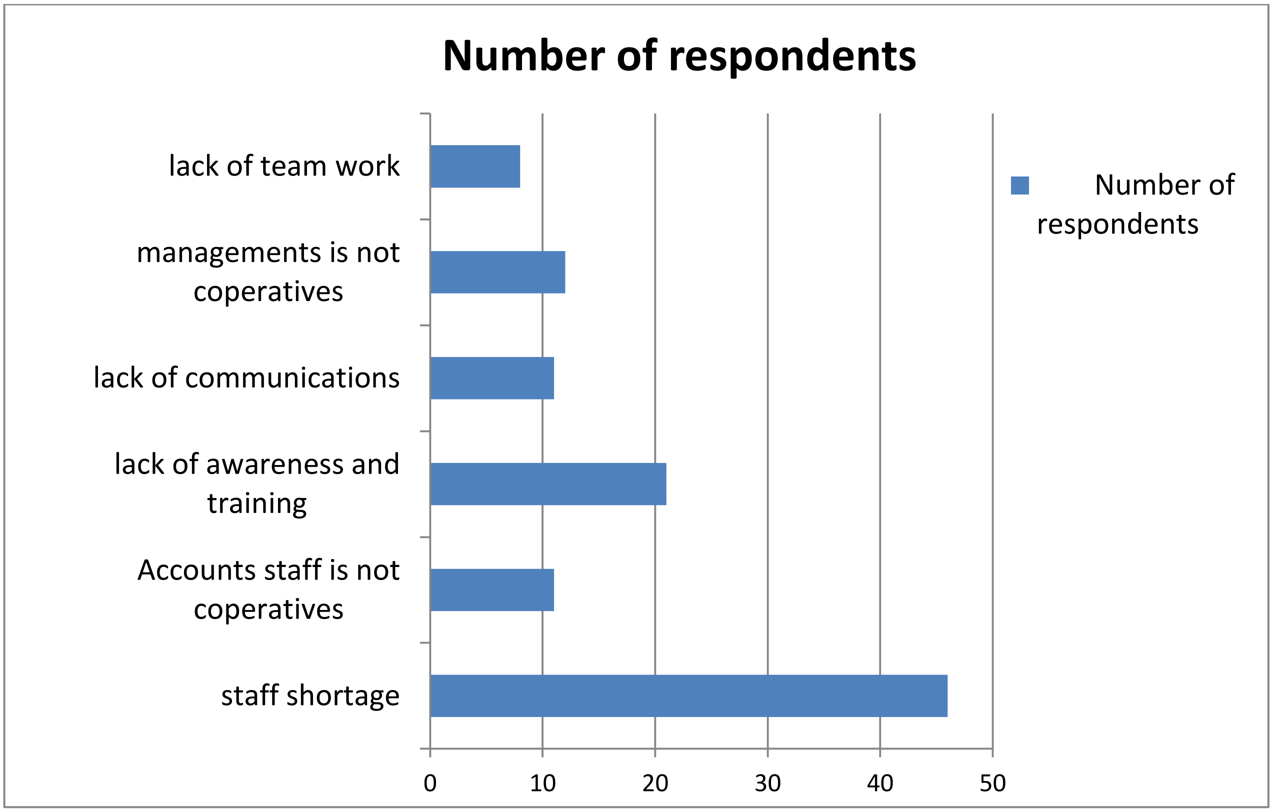
As shown in item 7 above, the result noted there is organizational long &short term training plan for internal auditors. 48.5% of the participants agreed i.e.(31,2)that there is a plan designed for audit staff and 26.5% disagreed i.e.(6, strongly disagreed, 12 disagreed) with the questions, while 25% are neutral with the statements.

Usually, the benefits of internal audit report recommendations are reduced, and deficiencies remain, if recommendations are not implemented within the specified time frame. It is management’s responsibility to implement approved findings and recommendations. The survey result in the last sentence has also ensure that Internal auditor’s recommendations are recognized and acted on, 53% of the respondents agreed i.e.(33, agreed 3strongly agreed) and 25% disagreed i.e. (3 strongly disagreed, 14 disagreed) whereas 22% are neutral with the statements. Therefore, the result show that internal auditors recommendations are recognized and acted on which enables internal auditors to be motivated and do more.

In general, the results from the empirical findings relating to working environments disclose a challenge for audit activities. The evidence indicates that internal auditors do not have good working conditions rather it discourages them in performing their jobs. it was confirmed by the respondents that there is no equal remuneration &grade among internal auditors, no special benefit given to motivate them for their unique contribution. No travel opportunities for internal auditors to conferences, audit work training etc. in the budgetary public sectors. With all this facts it can be emphasized that internal auditors could not play a significant role in performing audit functions.

4.10 Data analysis for the general questions

Chart 3: Descriptive statistics for Basic problems internal auditors face in performing audit Engagements.

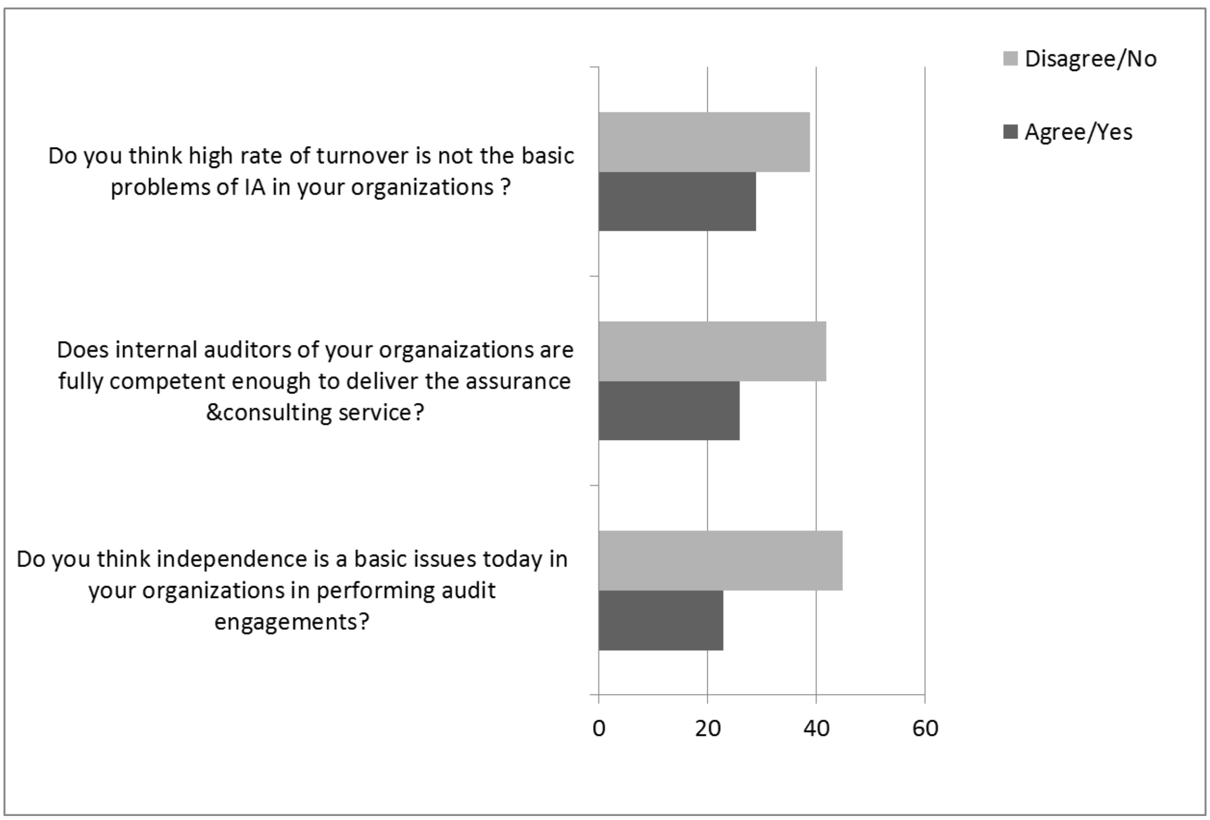


Source: survey data 2017

Furthermore, Respondents were asked to confirm whether the internal audits face specific challenges or not in carrying out their audit engagements. The result was shown in chart 3 above indicates that 46 (42%) of the respondents said internal audit departments faces staff shortages,21 (19%) responded lack of awareness and training, 12 (11%) of the respondents assured that managements is not cooperatives 11 (10%) of the respondents approve there is lack of communications with the audit customers and 11 (10%) they argue that account staff is not cooperatives in performing their audit activities whereas, the remaining 8 (7%) reveal that there is a gap between internal auditors in performing audit engagements as a team.

In general, as compare to each variables majority of the respondents reveal that staff shortages are the main basic difficulties internal auditors encounter as shown in the survey result of Kedir H. et al. (2014, October). Although, lack of awareness & training is also considered as a gap in doing the audit process. Moreover lack of communications and management cooperativeness had observed in the result.

Chart 4: Descriptive statistics of internal auditor's turnover, competencies and independence



Source: survey data 2017

The above survey result in chart 4 above, very much confirm that high rate of auditors turnover is the basic challenges in such budgetary public ministries in order not to carrying out their responsibilities 45(66.2%) of the respondents disagreed with the statements that high rate of turnover is not the problems of the IA departments. Whereas 23(33.8%) of the participants agreed with the statements.

Regarding competencies, although the auditors are experienced enough to perform the audit engagements they are not fully competent in the professions as well to provide the consulting& assurance service. 42(61.8%) of the respondents disagreed, whereas 26(38.2%) of them responded agreed with the statement that internal auditors are fully competent enough to provide the consulting &assurance service . Moreover, respondents also asked to confirm whether independence is the basic issues of internal auditors in implementing audit functions or not. 29(42.6%) of the respondents agreed and 39 (57.4%) of the respondents disagreed with the statements that independence is not a basic issue today.

Generally, Although independence to some extent is not a basic issues as is described above in chart 4 majority of the respondents argued that internal auditors faces a challenge related to turnover and full competencies of in carrying out their job responsibilities.

Table: 11 Descriptive statistics of how top managements &staff perceive internal auditors?

Managemets &staff attitude of IA	Number of respondents	percentages
As a fault finder	21	31%
As visionaries/ future oriented	11	16%
As apreventive role	23	34%
A proffession that can add value to the organizations	13	19%
Total	68	100%

Source: survey data 2017

According to the IIA definitions of internal audit (2012) The Internal Audit is responsible for an independent, objective assurance and consulting activity designed to add value and improve the public body's operations. It helps the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Therefore internal auditors to be effective based on the definitions and code of Ethics established, managements and staff play a great role to for the success. As shown in the survey result above, respondents were asked how top management staff recognizes them in such budgetary public ministries. 31% of the respondents reveal that management &staff consider internal auditors as a fault finder rather providing the consulting & assurance service where as 16% of the respondents consider them as a visionaries or future oriented by detecting the gaps in the internal control of the organizations. 34% of the respondents consider internal auditors as a preventive role in safeguarding the public bodies' assets and interests from losses of all kinds, including those arising from frauds, irregularity or corruptions. Whereas 19% of the respondents reacts that internal audit is a professions which can add values in such budgetary public ministries.

Generally, the survey result above concludes that, managements and staff attitudes is in such budgetary public ministries recognizes internal auditors as a fault finders and as the same time a preventive role which is controversial.

CHAPTER FIVE

5. SUMMERY OF FINDINGS, CONCLUSIONS &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 main purpose of this study is to examine the critical challenges of internal auditors in performing audit activities in economy sector budgetary public ministries. This study was carried out in 8 budgetary public Ministries. The data were collected through the use of questionnaires and the research paper used descriptive survey. 41 closed ended questions with likert scale , 5 open ended and interview questions were developed to guide the study. All questions were analyzed using frequency, percentages and mean.

5.2 Summery of Findings

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

- The demographic sample showed that majority of the respondents were male, about 66% of the respondents were audit categories including (audit directors, audit team leader, and auditors) while 34% of the respondents were from finance departments including(finance directors & accountants) most of the respondents were well educated about 90% of survey respondents had bachelor degree, while 10% had a Master Degree and with no diplomas. In terms of work experience, they are well experienced 3% of the respondents had below 5 year experience, 17.6% of the survey respondents had 5 to 10 years of work experience while 35.2% had 10 to 20 years of experience and the rest 44.2% had above 20 years of experience.
- Regarding audit planning, Detailed Audit work program and internal control questionnaire is not prepared & implemented, moreover, Risk assessment is not done as

part of annual audit planning , Internal Audit had no adequate resources that are appropriate, sufficient and effectively deployed to achieve the Internal Audit Plan.

- With regards to audit evaluations, since Government allocated substantial amount of capital budget in economy sector public ministries than others sector, internal auditors are fails to consider materiality issues in conducting audit engagements. Further also periodic supervision is not done by head of the internal audit and there is also lack of consistent documented practice in conducting audit engagement and preparing working paper.
- The survey result with related to audit reporting revealed that internal audit reports are not prepared as per the standards, it lacks clarity, and reliability of the overall structure of the reports, there is also some limitation imposed by managements not to includes material audit findings in the reports.
- With regard to audit follow up, although management set action plan they are reluctant to take correctives actions on the external audit findings, specially the OFAG reports.
- Regarding competency, although internal auditors have experienced, they don't have full competency in skill and knowledge at the level in which the professions demands to be ,they are not proficient in forensic skills /fraud detection, And in computer assisted internal auditing system
- According to the survey result, there is encouraging outcome for internal auditors to carry out their audit engagements independently.
- In case of working conditions of internal auditors, majority of the respondents confirmed that there is no equal remuneration &grade among internal auditors, and no special benefit given to motivate them for their unique contribution. Furthermore, there were No travel opportunities for internal auditors to conferences, audit work, training etc. in the budgetary public sectors.
- Majority of the respondents reveal that staff shortages, lack of awareness & training and recognizing internal auditors as fault finders by management and staff, rather than providing the consulting &assurance service are the main basic challenges internal auditors still encounter in doing the audit engagements.

5.3 Conclusion

The current major challenges faced by internal auditors in performing audit activities are the major concern of this study. Based on the summary of major findings and data analysis of the study, the following conclusions are drawn. In carrying out the audit engagements internal auditors should pass through the audit process of audit planning, evaluations, reporting and audit follow up which conforms to the International Standards for Professional Practice of Internal Auditing. Moreover, the professionals desire competencies in skill &knowledge, organizational independence and good working atmosphere which are significant in meeting the responsibilities of internal auditors and the internal audit activity.

The study noted that although internal auditors prepare strategic and annual audit plan, Audit staff of the budgetary public ministries lack the detailed work programs and resources which enables the auditors identifying, analyzing, evaluating, and documenting information during the engagement. The internal audit team plan is not implement a risk based audit plan because majority of the respondents asserted that risk assessments is not done as part of audit planning as a result identifying which project needs to be audited at first become a challenge in undertaking audit activities.

As principles, internal audit reports should be objective, objective reports are factual, unbiased and free from distortions. Findings, conclusions and recommendations should be included in the report without bias. According to the study the audit staff of budgetary public ministries are not prepared their audit report as per the standards it lacks clarity, and reliability of the overall structure of the reports, and also there is some limitation imposed by managements budgetary institutions not to includes material audit findings in the reports in such sector public bodies which unable to see the organizations material misstatements especially in a big projects.

Since Government allocated substantial amount of capital budget in economy sector public ministries it requires audit as a safe guarding tools of resource by providing assurance service to the organizations. The result from the study relating to audit evaluation had also discloses challenges to audit execution in performing audit function. internal auditors are fails to consider materiality issues in conducting audit engagements, which hide the internal audit not to see the big images of the organization, and also periodic supervision is not done by head of the internal audit, there is lack of consistent documented practice in conducting audit engagement and preparing working paper in budgetary public ministries which has an adverse effect on the result of an audit engagements.

The study had disclosed that managements reluctant to take corrective actions, on the recommendations of the external audit findings which are today's critical challenge in such budgetary public ministries. The study has also indicated that although internal auditors have no full competency in skill and knowledge especially in areas of forensic audit (fraud detection) and IT audit. They have minimum requirement level of competency which can be improved through continuous professional development training. today budgetary institutions uses IFMIS software program for financial report which demands internal auditors to use IT audit software in the future The evidence has also concludes that auditing activity in public ministries is not exercised with sufficient skill and knowledge.

Moreover, although there is encouraging result for internal auditors to perform audit engagement independently, without interference, by managements &staff. The results from the empirical findings relating to working environments disclose a challenge for audit activities. The evidence indicates that internal auditors do not have good working conditions rather it discourages them in performing their jobs. It was confirmed by the respondents that there is no equal remuneration &grade among internal auditors, no special benefit given to motivate them for their unique contribution. No travel opportunities for internal auditors to conferences, audit work, training etc. in the budgetary public ministries. The survey result also reveal that, staff shortages, lack of awareness & training and recognizing internal auditors as fault finders by management and staff, rather than providing the consulting &assurance service are the main basic challenges internal auditors still encounter in doing the audit engagements. Based on the findings of the audit process i.e. (audit planning', evaluation's, reporting's &follow

up) and independence, competencies, and working atmosphere it is concluded that internal auditors could not play a significant role in providing assurance service in the misuse of assets in public ministries.

5.4 Recommendations

The main intentions of this project paper are to identify the basic challenges of internal auditors in performing audit activities, and suggest possible recommendations to overcome such problems. Therefore, based on the findings, the following recommendations are suggested to public budgetary sectors, managements & internal auditors of the public sectors.

- **About audit planning**: The study recommends that, to achieve audit objectives of each assignment it is essential to develop an audit program. It is the link between the survey and the actual audit work. Audit program serves as a guide for the actual audit and provides a means of monitoring and controlling the progress and completion of the audit. It also helps as a basis for assigning each aspect of the audit assignment. In addition, it provides a record of the work done. and risk assessment should be done as part of audit planning and also internal audit plan should be based on their organizational risk profile.

- **Regarding audit evaluation**: The study recommends Supervision by head of IA will ensure that audits are conducted as planned or that variations are approved; appropriate audit techniques are used and audit findings, conclusions and recommendations are adequately supported by relevant and sufficient evidence. And also in conducting audit engagements the auditor should obtain an understanding of the audited entity's environment and internal controls. This enables the auditor to assess the risk of material misstatement whether due to fraud or error and to determine the relevant audit approach to be followed.

- **With related to audit reporting &follow up:** The study recommends, Internal audit reports should be objective. Objective reports are factual, unbiased and free from distortion. Findings, conclusions and recommendations should be included in the report without bias.

- Although there is legal enforcements to bring accountability from penalizing in terms money up to resigning the position of top management for those who does not take corrective action on the given period of time according to the amendments of government financial proclamation No648/2008, most of the time managements are unwilling to take corrective actions on the basis of audit recommendations and there is also a gap to implement the legal frame work . Therefore the study recommends that managements should take corrective actions if not legal enforcement should be exercised.
- **In relation to competencies**: According to IIA attribute standard No 1320 Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. Therefore, the study suggested that, there should be a CPD program, local chapters certification program and on job training program should be designed which enables internal auditors to upgrade their capacity of skill and knowledge in performing their audit jobs particularly in the areas of fraud detection and IT audit.

- **With regard to working environments**: currently there is no similar salary and benefit in federal public ministries having the same qualification and experience which un able to retain IA staff in each public bodies. Thus, the study recommends that to create good working conditions, there should be same salary for same grade beside Governments should play a major role for internal auditors in creating encouraging working conditions by establishing encouraging salary scale and benefit packages.

.

Reference

Lemma, A. (2000). *The State of Internal Auditig in Ethiopia.* institute ofintrnal auditors.

Minstry of Finance and Ecnomic Development of ethiopia. (2005). Internal Audit Training Module.

MOFED. (2007-2009). *Inspection Departement internal control of public bodies follow up report.* .

Ministry finance of tanzania (2012). Internal audit standards &quality assurance mannual.

Office of Federal Auditor General . (2007). *Audit Report Summited to Ethiopian Parliamnt.* Addis Ababa: OFAG.

Fekadu, B. (2009). Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions for the Partial Fulfillment of MSC. In Accounting and Finance. Addis Ababa: Addis Ababa University.

Alamirew mebratu, (2015). Internal audit function and its challenges in public sector governance: Empirical evidence from Amhara National Regional State, Ethiopia.

Mihret A. And Yismaw W, (2007),"Internal audit effectiveness: an Ethiopian public sector study", Managerial Auditing Journal, Vol. 22 Iss 5 pp. 470 – 484.

Argaw, L.(2000) The State of Internal Auditing in Ethiopia-The way Forward to Professionalism, Inaugural Ceremony of the Institute of Internal Auditors-Ethiopian Chapter Addis Ababa) 21-37.

Mihret A. And Yismaw W, (2007),"Internal audit effectiveness: an Ethiopian public sector case study", Managerial Auditing Journal, Vol. 22 Iss 5 pp. 470 – 484.

Kedir H. et al. (2014, october). Internal auditing standards and its practice the case of. Basic Research Journal of Business Management and Accounts, 3(6) (2315-6899), 08-84.

Kinfu, 1990, 'Accounting and auditing in Ethiopia: an historical perspective', paper presented to The First National Conference of Ethiopian Studies, Addis Ababa.

Mulugeta, S. (2008). Internal Audit: Reporting Relationship in Ethiopian Public Enterprises. Addis Ababa University, Accounting and finance.

Teklegiorgis, H., 2000, Kynote Speech, Inaugural Ceremony of the Institute of Internal Auditors--Ethiopia Chapter Addis Ababa, 16 December 2000.

Zeleke B (2007). A Study on Effective Implementation of Internal Audit Function to Promote Good Governance in the Public Sector Ethiopian Civil Service College Research, Publication and Consultancy Coordination Office.

Cohen, Aaron and Sayag, Gabriel. (2010). The effectiveness of internal Audting: An emperical examination of its determinant in Israeli organization. *Australian accunting Review*.

CIPFA. (2010).Code of Practice for Internal Audit for Local Government for UK the Chartered.

INTOSAI, (9100) Guidelines for internal control standards for the public sector.

Questionnaire

Annex I

Addis Ababa University

College of Business and Economics

Departments of Accounting and auditing.

Title of the research project: "challenges and prospects of internal audit in performing audit function in federal Economy sector public ministries"

I/ Introduction

Dear respondents this questionnaire is made to collect data on challenges and prospects of internal auditors in performing audit function. The data to be collected through the questionnaire is highly valuable to meets the objectives of this study. Therefore, you are kindly requested to fill in and return the questionnaire. The information you supply would be used for academic purpose only and will be kept confidential.

Thank you in advance,

Researchers address:

Sintayehu kagnew

Mobile: 0912154374

Email: skagnew45@gmail.com

Addis Ababa/Ethiopia

II. / General information

Name of the public body ____

Department____

Job position___________________________________

III/ personal profile

Indicate your choice by circle on the option provided below.

1. Your sex, A/ Male B/ Female
2. Your age, A/ under 30 B/ 30-45 C/ 45-60
3. Qualifications, A/ diploma B/ BA degree C/ MA/ MSC degree D/ PhD
4. Profession of your education, A/ Accounting B/ Business management C/ Economics D/ Statistics E/ others _________________
5. Professional certification (if any) A/ certified internal audit (CIA). B/ certified public accountant (CPA). C/ ACCA D/ others
6. Experience as internal auditors, A/ 1-3 years B/ b/n 3-5 years

   C/ b/n 5-10 years D/ b/n 10-20 years E/ above 20years

1. **Questions regarding on challenges and prospects of internal audit activities/ audit process/**

This study five Likert scale question is chosen which is used to measures respondents agreements with variety of statements. Put a tick **(X)** on the extent to which you find the statement is **SD=strongly disagree, DA=disagree N= Neutral , A= Agree SA= strongly agree**

No	Statements	SD	DA	N	A	SA
	A/ Audit Planning					
1	Strategic audit plan is prepared & implemented in your organization					
2	From the strategic audit plan Annual audit plan is prepared &implemented in your organization.					
3	Detailed Audit program and internal control questionnaire is prepared based on the annual audit plan					
4	Appropriate audit staff are assigned for which the audit					

	responsibilities demand in the audit program					
5	Risk assessment is done as part of annual audit planning					
6	Internal Audit has adequate resources like (time, budget, human resource) that are appropriate, sufficient and effectively deployed to achieve the Internal Audit Plan					
7	The head of internal audit held a planning meeting with staff assigned to discuss all aspects of the audit activities to be undertaken					
	Audit Evaluation	**SD**	**DA**	**N**	**A**	**SA**
1	Head of the internal audit regularly supervises the audit field work					
2	Audit findings are supported with sufficient, and accurate audit evidence					
3	Adequate sample is taken for evaluating audit evidence					
4	There is discussion on audit queries feedback with a concerned body before exit meeting					
5	Audit recommendations are supported with working paper					
6	There is a consistent and documented practice for conducting internal audit engagements and preparing working papers					
7	Internal auditors consider materiality issues					
8	Internal auditors have full access to records and information they need in conducting audits					
	C/ Audit Reporting	**SD**	**DA**	**N**	**A**	**SA**
1	Internal audit engagement reports are distributed to management and MOFEC in a timely way					
2	The management as well as MOFEC is satisfied with the clarity, structure, timing, reliability and content of internal audit reports					
3	Finance department reports monthly Financial report to internal auditors for audit engagement on time					
4	Exit conference is always made with Audi tee's for discussion before the report is disclosed					
5	There is no restriction by management to includes material audit findings like fraud actions in the report					

	D/ Follow up audit result	SD	DA	N	A	SA
1	management set action plan and follow up to take corrective action on the audit finding					
2	The internal auditors establish periodic follow up process to ensure that corrective action have been effectively implemented					
3	Management takes correctives action on the external audit findings /OFAG report/ on time.					
	E/ Independence of IA	**SD**	**DA**	**N**	**A**	**SA**
1	Internal auditors have unrestricted access to all departments and employees in the organization.					
2	All internal audit members feel free to include any audit finding in their audit work and report directly to the responsible body					
3	Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management					
4	Internal audit can freely access any necessary documents, information and data about the process under investigation and hence always acknowledged					
5	Internal auditors are independent of management influence in exercising auditing-related decision.					
	F/ Competencies of IA	**SD**	**DA**	**N**	**A**	**SA**
	Internal auditors do not have full competency in skill& knowledge in evaluating audit evidence					
	Internal auditors are proficient in forensic skills /fraud detection					
	Internal auditors are proficient in computer assisted internal auditing system					
	Internal auditors possess adequate experience in carrying out audit process					
	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled.					
	The auditors in your organization are qualified to undertake audit function					

	G/ working atmosphere (Job satisfaction of IA)	SD	DA	N	A	SA
1	Internal auditors are adequately graded and remunerated according to their role and responsibilities					
2	Salary scale is uniform in all federal budgetary public bodies **/same salary for same grades/**					
3	There is special benefit given for unique contribution in your institution.					
5	There are participating travel opportunities to conferences, audit work ,training etc.					
6	Internal auditors are provided with formal audit training courses					
7	Internal auditors are acknowledged and their role recognized in audit publications					
8	The organization has a long & short term training plans for each internal audit staff					
9	Internal auditor's recommendations are recognized and acted on					

V. General questions

<u>Circle your choice /your choice may be more than one/</u>

1. Being an internal auditors what are the basic specific Issues and problems you faced in your organization?
   A. Staff shortage,
   B. Accounts Staff is not cooperative,
   C. Management is not supportive,
   D. Lack of awareness and training.
   E. Lack of communication skill
   F. Lack of team work

Specify if any further challenges

____

____

____.

2. Do you think independence is a basic issue today in your organization in performing audit engagement?

   A. Yes   B. No

If your answer is 'yes' specify the basic challenges facing internal audit regarding independence

____
____
____
____
____

3. Do you think that internal auditors of your organizations are fully competent enough to deliver the assurance and consulting service in your organization?

A. yes B. No

If your answer is 'No' mention the reason for their in competencies
____
____
____

4. Do you think High rate of turnover is the basic problem of internal auditors in your organization? A. yes B. No

If your answer is "yes" what is the reason for lack of internal auditor's job satisfaction?
____
____
____.

5. How top management perceives internal auditors in your organization?

A. As a fault finders
B. As a visionaries / future oriented/
C. which can add values to the organization
D. As a preventive role before problems has happened.

Specify If any
Others____
____
____

In your experience what will you propose to have "strong, competent and independent" internal auditors in your organization in the future?

____

____

____

____

V. General questions

Circle your choice /your choice may be more than one/

3. Being an internal auditors what are the basic specific Issues and problems you faced in your organization?
   G. Staff shortage,
   H. Accounts Staff is not cooperative,
   I. Management is not supportive,
   J. Lack of awareness and training.
   K. Lack of communication skill
   L. Lack of team work

Specify if any further challenges

____

____

____.

4. Do you think independence is a basic issue today in your organization in performing audit engagement?

   B. Yes B. No

If your answer is 'yes' specify the basic challenges facing internal audit regarding independence

____

____

____

____

3. Do you think that internal auditors of your organizations are fully competent enough to deliver the assurance and consulting service in your organization?

A. yes B. No

If your answer is 'No' mention the reason for their in competencies

____

____

____

6. Do you think High rate of turnover is the basic problem of internal auditors in your organization? A. yes B. No
   If your answer is “yes” what is the reason for lack of internal auditor’s job satisfaction?

____

____

____.

7. How top management perceives internal auditors in your organization?

E. As a fault finders
F. As a visionaries / future oriented/
G. which can add values to the organization
H. As a preventive role before problems has happened.

Specify If any
Others____

____

____

In your experience what will you propose to have “strong, competent and independent” internal auditors in your organization in the future?

____

____

____

____

Annex 2

INTERVIEW QUESTIONS

1. What are the challenge of internal auditors in performing audit activities with related to

   A. Audit planning
   B. Audit implementation
   C. Audit reporting and follow up audit result
   D. Independence and job satisfactions

2. In performing audit engagement do you think organizational independence of internal auditors in your organization is not an issue in accomplishing the role and responsibilities of IA?

4. To what extent management and other organs support, understand the role of internal audit function in the good governance

5. What motivation exists in your organization which enables to retain the IA?

6. Do internal auditors competent in terms of skills and knowledge enough to carry out the audit engagement as per the standard notified in IIA?