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**Challenges and Prospect of Risk Based Internal Audit in
Ethiopia Public Institutes:
The Case of Selected Federal Organizations**

By: Roman Argaw

*A Research project Paper Submitted to College of Business and
Economics Department of Accounting and Finance for Degree of MSc
in Accounting and Auditing*

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Declaration

I, Roman Argaw declare that, this project paper prepared for the partial fulfillment of the requirements for MSC. Degree in Accounting and Auditing entitled “Challenges and Prospects of risk based internal audit in Ethiopia public institutes: the case of selected federal organizations” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Declared by:

Name: Roman Argaw

Signature _____

Date _____

Confirmed by Advisor

Dr. Habtamu Berhanu(PhD)

Signature _____

Date _____

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List of Acronyms and Abbreviations

- CIIA - Chartered Institute of Internal Audit
- CR - Control Risk
- CAE - Chief Audit Executive
- COSO - Committee of Sponsoring Organization of the Tread way Commission
- ERM - Enterprise-wide Risk management
- HIA - Head of Internal Audit
- IA - Internal Audit
- IR - Inherent Risk
- IAF - Internal Audit Function
- IIA - Institute of Internal Auditor
- INTOSAI - International Organization of Supreme Audit Institutions
- IFAC - International Federation of Accountants
- IA COP - Internal Audit Community of Practice
- ICAEW - Institute of Chartered Accountants in England and Wales
- MOF - Ministry Of Finance
- OFAG - Office of Federal Audit General
- OECD - Organization for Economic Cooperation and Development
- PIIA - Public Institute Internal Auditors
- RBAA - Risk Based Auditing Approach
- RBIA - Risk Based Internal Audit
- RBA - Risk Based Auditing
- RAU - Risk and Audit universe
- RM - Risk Management
- SPSS - Statistical Package for Social Sciences
- ZNA - Zimbabwe National Army

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Abstract

In Ethiopia, even though the history of auditing goes back to 1930's and the profession has long life in the country but its development is not as expected. Only Preferring the traditional auditing approach rather than risk based auditing approach in the public institutes makes the outcomes so far been ineffective. The study aimed at determining the extent of challenges facing by the federal public institutes in the implementation of risk based auditing and its prospect in public institutes. Scope of the research limited on purposefully selected 12 Federal Public Organizations in Addis Ababa from three categories of the sectors according to their function which are administrative & general service, social and economy sector and purposely selected the ministry of finance (MOF) inspection directorate staff who is regulatory body over the federal public institutes. The methodology were employed in the research is mixed approach (Quantitative and Qualitative data). Data was gathered via questionnaires distributed to internal auditors and an interview with the institutes manager and inspection directorate director and team leader, examination of selected internal audit reports, internal audit annual plan ,OFAG (office of federal audit general)three years 2006/2007,2007/2008,2008/2009 annual audit report and review of policy and procedure manuals and the data was analyzed the descriptive statistics using Statistical Package for Social Science (SPSS version 20)results. The findings of the study revealed that the challenges and prospects of the risk based internal audit in federal public institutes.

Key words: risk based internal auditing, challenge and prospect, federal public institutes.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Benli & Celayir (2014) stated that risk based internal audit is a comprehensive approach which can be taken into consideration by the organizations in the internal audit. Every organization is different, with a different attitude to risk, different structure and different processes. Experienced internal auditors need to adapt these ideas to the structures and processes of their organization in order to implement RBIA. If the risk management framework is not very strong or does not exist, the organization is not ready for RBIA. More importantly, it means that the organization's system of internal control is poor. Internal auditors in such an organization should promote good risk management practice to improve the system of internal control. (*IIA, 2013*).

Also the IIA defines risk based internal auditing (RBIA) as a methodology that links internal auditing to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite (*CIIA, 2014*).

The Council of Ministers Financial Regulations No. 17/1997 E.C. issued an authority to the Ministry of Finance and Economic Development to prepare the internal audit manual, formulate and distribute directives that detail the Government Financial Policies and to develop and maintain appropriate standards of work and conduct of internal audit for application throughout all public bodies.

The Federal government of Ethiopia has many public bodies owned by the government. These public enterprises have a vital role in the economic development of the country and also they have a big share to correct the market gap. The public enterprise was established based on the proclamation no. 25/1992.

Public body means "any organ of the Federal Government which is partly or wholly financed by Government allocated budget" (Part 1, article 2 of the Financial Administration Proclamation of the Federal Government of Ethiopia – No 57/19976 E.C).

According to the federal government internal control standards direction no.8/2003 article 4 sub article 4; Risky means exposing to risk because of weak internal control system or the absence of the internal control system within the government institutions.

The above directions indicated that the Public institutes internal auditors (PIIA) function have to be gives priority to major risks which has significant impact on the organization objective and also have a responsibility to assess the established internal control system and give a progressive idea to the management in order to improve and take corrective action on the system.

under the issued authority by financial proclamation number 648/2009 E.C the ministry of finance passed the internal audit direction No7/2003 E.C in this direction article 5 sub article 2 the public body internal auditors directed to follow and implement contemporary auditing systems in their organization as well as to evaluate the existing internal control system and provide an advising service to the management in order to improve the overall internal control system framework of the organization and playing value adding role to the achievement of the objective. Internal audit direction emphasized on Public body internal audit to give priority and undertake risk based internal auditing approach.

According to the internal audit manual(1997 E.C) indication that the risk effect in public organization can involve; Failure to adhere to public body's policies, plans, and procedures, or not complying with government's laws and regulations, An erroneous decision from using incorrect, untimely, incomplete, or otherwise misleading information, Acquiring resources uneconomically or using them inefficiently or ineffectively, Failure to adequately safeguard assets of the public body are amongst the impacts. In addition that the findings occurred repetitively in the institutions and unable to accomplish established objectives and goals for operations or programs of the organization.

1.2 Statement of the Problem

Risk based auditing approach(RBAA)aligns scarce internal audit resources to areas of most concern in order to add value, improve the organization's operations, and enable it achieve its objectives (Mwencha, 2006). Although the risk based audit approach has been extensively used as a tool of internal control systems in the public sector many scandals keep on reappearing every physical year, what remains unclear is whether the risk based approach is ineffective or the

method of implementation is inappropriate. Alternatively it may be the personnel involved in the implementation of risk based audit approach, its therefore disturbing as much as risk based approach has consumed a lot of funds a lot remains to be done to justify the costs of implementing the risk based audit approach.(*Nyarombe, Musau, Kawai&kipyegon,2015*).

However, the internal audit directions and manuals give an emphasis on that the internal auditing approach have to be risk based but the existed auditing function is ineffective in the risk based audit and the quarterly audit report and annual audit plan asserts that the internal auditing functions are more dependent on the traditional auditing/compliance auditing approach rather than risk based auditing approach. Since, the internal audit annual plan lacks the risk based approach and the extent of using risk based auditing approach in the internal audit function being the internal audit activity is ineffective in identifying the internal control system, identifying relevant risk factors, and lack of assessment of risk factors relative to significance effect in their organization. Beyond the domination of the traditional /compliance auditing approach in the IAF the findings also reappearing every physical year, what indicates whether the risk based approach is ineffective or the method of implementation is inappropriate in the organization.

The three years (2006/07, 2007/08 and 2008/09 E.C) of office of federal audit general (OFAG) annual audit report to the parliament shows that for a consecutive years **58** organizations stayed in the disclaimer and adverse opinion and there is continuousness of the uncovered several weaknesses of internal control maintained and executed by government agencies and Universities, particularly on internal control related to use of budget, safe guarding of assets and authorization of asset acquisitions.

These all affirms that it is a threat for the government to meet its set development goals and objectives. The domination of the traditional auditing /compliance auditing approach in the public organizations internal audit function has so far failed to reduce risk to acceptable levels and has failed to prevent, detect and correct internal control weaknesses that are prevalent in the organization and the absence of risk based auditing approach in public organizations will exposed to corruption and embezzlements of the public resources that laid on recurrent expenditures and capital projects as well as it has an impact on the donors and creditors financial contribution.

This research seeks to investigate the challenges and prospect of utilizing the RBIA approach in the public institutes and examine; The extent of using risk based auditing approach in public organization and its adequacy to address the organization risky areas, the key tenets for risk management framework in public institutes, the value adding role of the IA within the risk management framework & the adequacy of the risk management framework of the institutes.

In Ethiopia context in my knowledge studies are not conducted regarding challenges and prospect of risk based internal audit in public institutes but some studies are conducted related with risk assessment in Ethiopian public (for- profit) enterprises (Mohammed,2011); value added role of internal audit an Ethiopian case study (Dessalegn & Getachew ,2008) the public sector (for –profit) corporation perspective; risk based audit in practices and financial performance; a case study of Ethiopian airlines(for –profit) (Orano ,2015);Assessment of Internal Control Effectiveness in Selected Ethiopian Public Universities (Tsedale,2015), Antecedents and organizational performance implication of internal audit effectiveness: evidence from Ethiopia (Dessalegn,2010); Internal Audit Effectiveness: an Ethiopian public sector case study (Dessalegn & Aderajew ,2007);

To some extent the studies are conducted from outside the country regarding RBIA; an investigation of the challenges of implementing the risk based internal auditing (RBIA) in the ZNA (M.vuramayi ,2014); internal audit effectiveness through risk based auditing: an empirical study in the Malaysian public sector (B.Yusoff,2015) A study of risk based auditing barriers: Some Iranian evidence (salehi & khatiri,2011) ;internal audit and risk management in public sector entities; between tradition and actuality (turlea & stefanescu ,2009), The effect of risk based audit approach on the implementation of internal control systems (Nyarombe ,Musau ,Kawai & kipyegon,2015); Factors Influencing Risk Based Internal Audit Adoption In Kenya Agricultural And Livestock Research Organization(Terer & Ngahu, 2017); linkages between auditors' risk assessment in a risk based audit(Kotchetova, M. Kozloski& F. Messier, Jr.,2006); and some other studies are conducted related with risk based internal audit.

As per the knowledge of the researcher in Ethiopia context there is no research has been conducted related with the challenge and prospect of RBIA in the public institutes. Therefore, this study fills the literature gap in the area.

1.3 Research Questions

The study has developed the following research questions;

- a. To what extent internal audit functions use risk-based auditing approach?
- b. What are the tenets of a sound risk management framework in public institutions?
- c. What is the role of the IA within the risk management structure?
- d. To what extent is the risk management framework adequate to address the public institutes risk profile?
- e. What are the challenges to implement RBIA in federal public institutions?
- f. What are the prospects of implementing RBIA at federal public institutes?

1.4. The objectives of this study were;

1.4.1 General objective

The overall objective of this study is to examine the Challenges and prospect of risk based internal audit in Ethiopia public institutions.

1.4.2 Specific Objectives

- a. To examine the extent of internal audit functions in using risk-based auditing approach.
- b. To identify the key tenets of risk management framework.
- c. To determine the role of the IA within the risk management framework.
- d. To determine the adequacy of the risk management framework of the public institutes.
- e. To identify the challenges encountered by Risk Based Auditing Approach in public organizations.
- f. To identify the prospects of implementing risk based audit practice in public institutes.

1.5 Significance of the Study

1.5.1 To the Academic purpose

The research may provide a source for further research by other students who may have an interest in this area of research.

1.5.2 To the Organization

The public organization will benefit from some of the recommendations proffered by the researcher. In particular, it will lead to the following:

- a. The re-orientation of the IA to conduct their audits from a risk-based perspective.
- b. The achievement of efficiency, effectiveness and economic utilization of the limited public resources by concentrating effort on areas of heightened risk.

1.6 The scope of the Study

This research focused on the challenge and prospect of risk based internal auditing in selected Federal Public Organizations in Addis Ababa to assist the management to effectively utilize the Public resources through better-quality internal control framework, with the hope of ensuring accountability in public bodies. However, due to time and cost constraints, the scope of this study was cover 12 selected public sectors from three categories of ministries according to their function which are administrative and general service, social and economy sector.

1.7 Limitation of the Study

Having the above scope, the study was subjected to the following limitations.

- a. Insufficient of data from the Federal Public bodies and also the officials are busy with work and other office commitments like meetings and trainings.
- b. Time, financial and data constraints, it is out of the reach of the researcher to incorporate all in this study.
- c. Unavailability of existing researches on the subject especially the case of Ethiopia; it makes difficult to better collect information.

1.8 Organization of the Paper

The study included five chapters. The first chapter dealt 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 dealt with related literature. The third chapter shows research design and methodology. The fourth chapter has data analysis and interpretation and chapter five contain summary, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

In this chapter, the researcher tried to discuss: review of theory, key definition of risk, conceptual framework of risk based internal audit ,risk assessment, traditional versus risk based internal audit, Risk based audit planning , the extent of using risk based internal audit functions in auditing approach, the tenets of risk management framework ,the role of the IA within the risk management structure, the risk management framework adequate to address the risk profile, the challenges to implement RBIA and the prospects of implementing RBIA.

2.2 REVIEW OF THEORY

Terer & Ngahu (2017) recognized that the risk-based internal audit of the theory is applied to the internal control system and risk management, requiring all departments should establish risk management awareness, identify the risk control points, risk take appropriate measures to control, and recorded a variety of risk control, creating risk-based internal audit of the important sources of data (Doolin and Lawrence, 1997).

According to the authors perception the responsibility of identifying and managing risks belongs to management, while one of the key roles of internal audit is to provide assurance that those risks have been properly managed (Alexander, 1991). Furthermore the authors specified that Professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organization's own risk management framework. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working.

M.vuramaya (2014) argued with the beliefs of Little (2013) cited in Schroeder (2014:29) RM is no longer a distinct area of business management which can be performed by a single person or unit. Instead, it requires that every employee is risk-conscious and must take a proactive stance in managing risk in their day to day work. However, this does not discount the key role that leadership and management, and the support of organization systems play in helping employees acquire the necessary skills and attitudes to identify and manage risk.

2.3 Key definitions of risk

IACOP (2014) identified that the key definitions concerning risk under the question what are risks? Are:

- a. **Event** – an incident or occurrence, from sources internal or external to an organization, which may affect the achievement of objectives. Events can have negative impact, positive impact or both. Events with negative impact represent risks. Events with positive impact represent opportunities.
- b. **Risk** is the possibility that an event will occur and adversely affect the achievement of objectives. Risk is measured in terms of impact and likelihood.
- c. **Opportunity** is the possibility that an event will occur and positively affect the achievement of objectives.
- d. **Key risks** are these risks that, if properly managed, will make the organization successful in the achievement of its objectives or, if not well managed, it (the organization) will not achieve its objectives.
- e. **Inherent risk** is the level of risk before any risk mitigation actions such as control activities have been taken into account (e.g. the inherent risk of flooding before taking into account flood prevention measures).
- f. **Residual risk** is the level of risk after taking into account risk mitigation actions such as control activities. The auditor is most concerned with the level of residual risk. (In some cases inherent and residual risk will be the same. But areas that are well controlled will usually have lower levels of residual risk.)
- g. **Risk appetite** is the level of risk that an organization is willing to accept in pursuit of its objectives.
- h. **Risk factors** – a term used to describe generic factors that can indicate a higher level of risk and/or priority to be given to one element of the audit universe.

2.4 Conceptual framework of risk based internal audit

OECD (2017) identified about the COSO Framework that everyone in an organization has responsibility for internal control related activities to some extent. This means that all employees produce information used in the internal control system or take other actions needed to affect control. At the same time everybody in the organization should be responsible for

communicating internally problems in operations, integrity breaches like noncompliance with the conflict of interest policy, or other wrongful activities. Internal auditors and external auditors of the organization measure the effectiveness of internal control arrangements as part of their mandate. Their role is to assess whether all the different components of the internal control system are present and operating

Together, adequate and cost-effective controls are put in place, working effectively, and make recommendations on how to improve internal control deficiencies, overlaps and gaps.

The Three Lines of Defense Model in Effective Risk Management and Control (IIA)

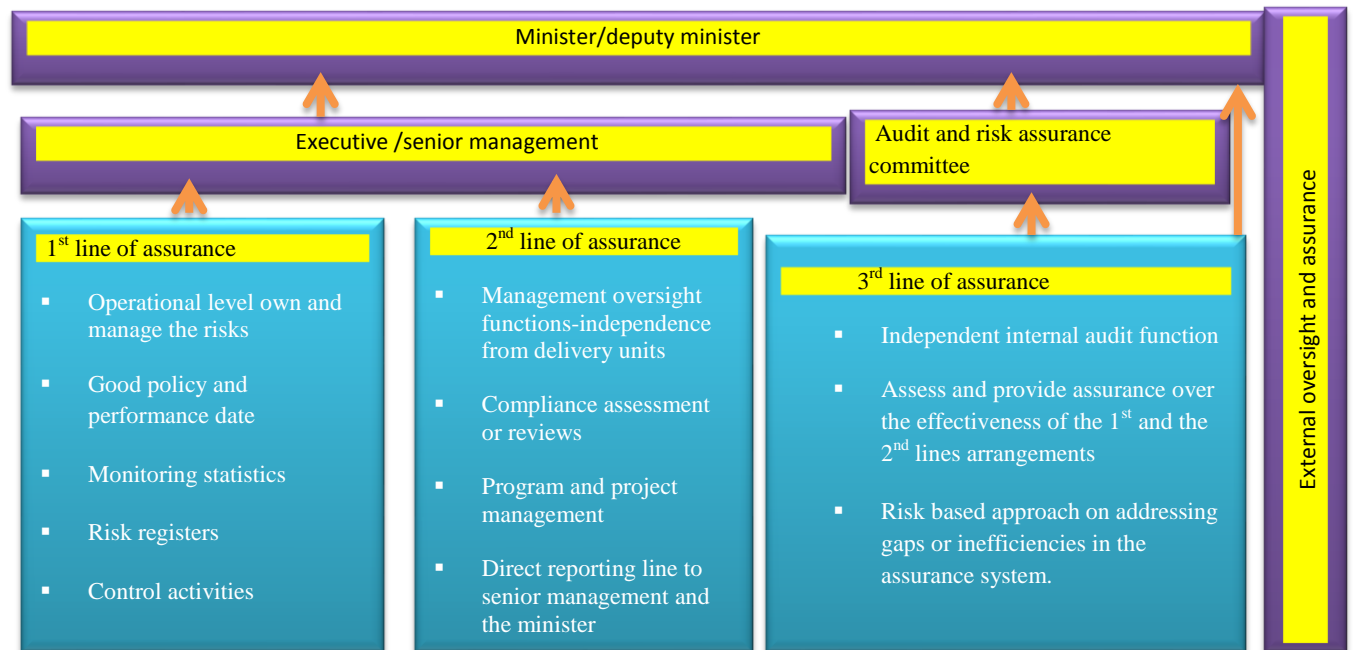
The IIA's Three Lines of defense model is very useful to describe the different layers to identify and manage risk, based on position, role, and responsibilities within any organization, including public institutions.

The first line, operational management, is based on the management and internal control measures designed into systems and processes. This line comprises the business and process owners, whose activities identify, assess, control, and mitigate the uncertainties that can facilitate or prevent achievement of the organization's objectives. This group of line managers and staff not only owns and manages risks, it is also responsible for implementing corrective actions to address process and control deficiencies.

The second line monitors governance, risk and compliance and is a management and oversight function. It is separate from the first line and its main role is to add experience and expertise while monitoring and supporting the activities of the first line of defense.

Internal audit is the third line, mandated to provide assurance directly to elected officials, political appointees and senior administrative management about the other two lines' governance, risk management, and control efforts. In order to fulfill this assurance role the third line has to be fully objective and independent, not tasked with any kind of management responsibilities.

Figure 2.4.1. Key attributes of the Three Lines of Defense Model (IIA, 2013)



COSO Cube ERM (2004)

According to the Kerstin, Simone, Nicole and Lehner (2014) identification the Committee of Sponsoring Organizations was organized in 1985 by 5 main sponsors. Its main task is to provide frameworks and guidance to implement ERM and internal controls in order to reduce the extent of fraud (COSO, 2004). This article will focus on the ERM framework.

Entities shall be supported to implement an Enterprise Risk Management by the COSO Cube ERM. Its focus is set on different functions that establish an effective risk management. Firstly, the foundation of this framework is the alignment of entities' risk appetite and strategy. The management evaluates strategic alternatives, settles related objectives and develops mechanisms to manage related risks taking into account the risk appetite. Based on the risk appetite an entity is also able to enhance risk response decisions: risk avoidance, reduction, sharing or acceptance. Due to a more and more complex environment, an efficient ERM enables reducing operational surprises and losses. Most risks are related today, ERM again support to deal with multiple and related risks within an entity. ERM not only handles risks, it also identifies opportunities and tries to realize them (COSO, 2004).

Setup and definitions

This framework is a 3 dimension matrix, as you can see in the graphic below.

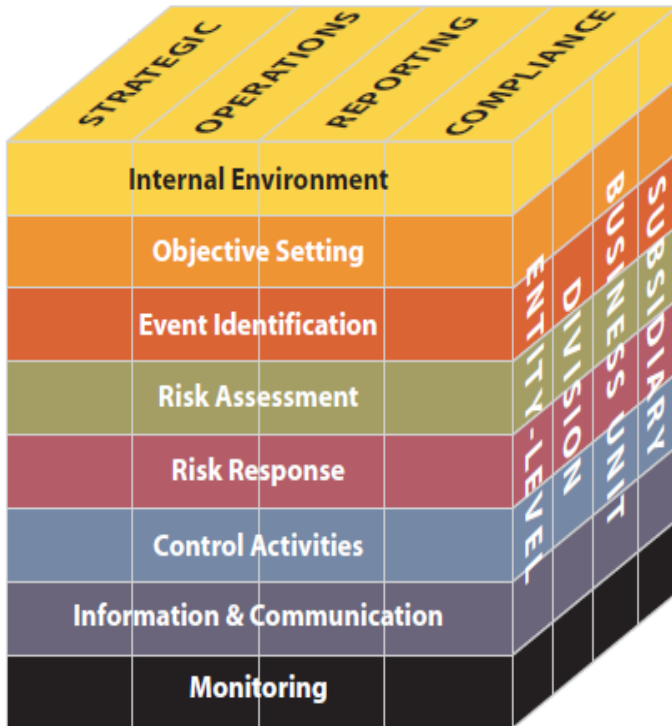


Figure 2.4.2: COSO Cube ERM 2004, source: COSO ERM Framework, 2004

On top, an entity has to select a strategy and establishing aligned objectives cascading through the entity. These objectives are set in four different categories. Strategic objectives are high-level goals, aligned with and supporting its mission. Operational objectives enable an effective and efficient use of entities' resources. Reporting objectives ensure the reliability of the reporting system and compliance objectives need to meet all law and regulation requirements (COSO, 2004).

On the front side the 8 main interrelated components of Enterprise Risk Management are described. The internal environment determines the philosophy and how risk is viewed within and organization. Furthermore, it sets ethical values, integrity and, the risk appetite of an enterprise. As risk appetite is the foundation of the following components, its determination needs to be carried out very carefully. Risk appetite is the amount of risk an entity is willing to take entirely. It is a reflection of the entities' risk management and influences the culture within an organization (COSO, 2004).

There is no “standard” risk appetite that applies to all organisations. As organisations set different objectives, their risk appetite is diversified as well. Furthermore, an organisation must understand the impact of determining higher and lower risk tolerance levels for certain objectives. An organisation needs to communicate those levels to ensure an effective ERM. Finding the right approach to do this is a challenging task. Three different approaches have proved to be successful. **Firstly**, an organization could create an overall risk appetite statement. It should be broad enough, yet descriptive enough for organizational units to manage their risks within. The **Second** approach is to communicate risk appetite for each material class of organizational objectives. Another approach is the communication of risk appetite for different categories of risk. **Finally**, risk appetite needs to be reviewed continuously as the environment is changing to the same extent. You can see the whole process below



Figure 2.4.3: Risk Appetite. Source: Rittenberg/Franks, 2012

(Rittenberg/Martens, 2012).

According to COSO Cube ERM the next step is to set certain objectives. Otherwise it would be impossible to identify any risks or opportunities. These objectives must be in alignment with the strategy and mission of the organization. The management is responsible for the objective setting (COSO, 2004).

Afterwards, it is necessary to monitor the internal and external environment for any events that may be a threat in achieving objectives or opportunities. Opportunities need to support the mission and strategy of an organization. Then, any risks get analyzed, considering likelihood and impact to determine how they should be managed. Risks get assessed on an inherent and a residual basis. Otherwise, an organization would not be able to find the right risk response. Management has to decide whether to avoid, accept or share a certain risk. To do so, it develops

a set of actions to align risks with the entity's risk tolerances and risk appetite. Control activities are necessary to find out if risk responses are effectively carried out (COSO, 2004).

All tasks above could not be achieved, if the relevant information was not identified and communicated efficiently, so responsible managers could react immediately. Finally, the entirety of ERM needs to be monitored continuously to improve it when necessary (COSO, 2004).

The relationship of the different objectives and components is essential. An entity strives to achieve its strategic, operational, reporting and compliance objectives by establishing all eight components of ERM in an efficient and effective way (COSO, 2004).

The OECD(2017) also stated that Several international frameworks attempt to define the components, attributes and tools for a robust internal control system standards (e.g. the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control-Integrated Framework 2013, INTOSAI Guidelines for Internal Control Standards for the Public Sector 9100, the United Kingdom's Cadbury Code, the Canadian Institute of Chartered Accountants' Criteria of Control and the South African King's Code, among others).

Taking these co-existing conceptual approaches into consideration, and drawing from the definition of the International Federation of Accountants (IFAC), public internal control could be seen as an integrated part of an organization's management system, effected, understood, and actively followed by elected officials, senior management, line managers and staff, in order to mitigate the organization's risks in achieving the set objectives through:

- a. effective and efficient strategic and operational processes;
- b. providing reliable information to internal and external users for timely and effective decision making;
- c. ensuring conformance with applicable laws and regulations, as well as public policies, procedures and guidelines ;
- d. safeguarding the organization's assets and resources against loss, fraud, corruption, misuse and damage; and
- e. Safeguarding the availability, confidentiality, and integrity of the entity's IT systems.

2.5 Risk assessment

Risk assessment has been critical to the conduct of all audits for a long time. ‘Risk-based auditing’ is a term often bandied about and a sure way to cast aspersions on an auditing standard or methodology is to assert that it is, ‘not risk based’. Every time an auditing standard is revised, one of the purported benefits is that the new standard is risk based, implying that the extant standard is not. But the idea of a ‘risk-based’ approach to auditing has been around for at least 20 years, and it is not a difficult concept: it refers to the focus of the audit process on those areas that are most at risk of material misstatement.¹ Nevertheless, both auditors and regulators report problems in determining what constitutes a ‘significant risk, a ‘material’ risk and a ‘high-risk area’ ICAEW (2015).

The book also identified that appropriate risk assessments should be efficient in terms of cost and effort. If auditors, using their judgment, assess risk appropriately and make clear links between risk assessments and the procedures they perform, the audit stands a chance of uncovering material misstatements by focusing on the right areas. Corrections can be made to the financial statements if necessary and the audit opinion will be appropriate.

In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption, IFAC (2013).

2.6 Traditional versus risk based auditing

Nyarombe, Musau, Kawai & kipyegon (2015) argued with the idea, RBA is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. In pre-audit, management abdicated their responsibilities to internal auditors; there were no audit reports and no review of systems by management. On the other hand, systems audit was passive and reactive control based audit with no involvement of management in audit planning. Therefore, for internal audit to be effective and efficient, RBA was introduced. (Gibson, 2003).

The researchers also identified that Risk Based Audit is superior to traditional audit approaches for two reasons. **First**, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. **Second**, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the operations.

In addition to the above indications by the researchers they also argued with on that the Risk Based Audit, which focuses on both recorded and unrecorded risk, improves financial statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the clients company. In order to do this, the auditor must have an up to date insight of the clients business and activities. This knowledge is gained through the way the client operates their business, management, internal and external environments. he knowledge gathered can help to design the audit program that includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2003).

Risk-based auditing derives largely from models that assume that inherent risk (IR) and control risk (CR) are distinct concepts and that IR arises from attributes of the audit environment that are completely independent of attributes that determine the level of control risk. Operationalizing the distinction between IR and CR has however, proved troublesome. There appears to be little consensus regarding attributes that may identify IR and there is little published evidence regarding how IR is considered by practitioners. Also, it is not yet clear neither does it make good logical sense to try to separate IR and CR in the manner demanded by standard setters (De Fond, Francis &Wong, 2000).

In developing the risk-based audit approach there are certain complexities surrounding an audit that should be considered? The major complexities in performing the audit are: **firstly**, the expectation gap; **secondly**, the uncertainties surrounding the responsibilities of the auditor; **thirdly**, the provision of reasonable assurance; and **fourthly**, the practical implementation of the standards (Gibson, 2003). The risk-based audit approach is an essential component in the

performance of an audit and part of the audit professions’ defense against legal liability. This improved the standing of the audit profession, as the audit was legalized (Rapa &Kauffman, 2005).

Hematfar & Hemmati aggregate that Risk-based auditing is a new approach to the practice whose aim is to improve the quality and effectiveness of audits, since determining the appropriate nature, timing, and extent of substantive testing allows for higher quality audits at shorter time. Substantive testing is limited where there is internal control reliance and extensive where there is no internal control reliance (Forsati, 2002). The new methodology allows auditors to control risk at an acceptable level, thus achieving a high level of reliability while reducing time and cost of auditing. Given the importance of this new auditing approach, it is imperative to examine and compare it with the traditional auditing approach (Kratchman & Blay et al.,2008).

2.7 Risk based audit planning

IACOP (2014) stated that Planning provides for a systematic approach to internal audit work and requires knowledge covering a wide range of issues in public management, including risk assessment and internal control.

- This RAP guide has been developed to:
 - a. Help Internal Audit units to produce effective risk-based strategic and annual plans.
 - b. Provide guidance on planning and risk assessment that can be used as a set of principles by central units responsible for advising on the development on Internal Audit in their own countries.
- The guide is fully consistent with the Institute of Internal Auditor’s (IIA) International Standards for the Professional Practice of Internal Auditing on planning internal audit work. In particular:
 - a. IIA Standard 2010 which requires “The chief audit executive¹ must establish risk-based plans to determine the priorities of the internal audit.”
 - b. IIA Standard 2010.A1 which requires that “The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process”.

- c. IIA Standard 2010.A2 “The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.”
- d. IIA Standard 2020, “The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- These standards require the Head of Internal Audit (HIA) to develop a risk-based plan. The HIA should take into account the organization’s risk management framework, including risk appetite levels set by management for the different activities or parts of the organization. If a risk management framework does not exist, the HIA uses his/her own judgment of risks after consideration of input from senior management and the board. The HIA must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

2.7.1 Why is risk-based planning important for an internal audit unit?

According to the IACOP (2014) identification the risk based audit planning is important for;

- The main challenge faced by majority of internal auditors is how to allocate limited internal audit resources in the most effective way - how to choose the audit subjects to examine. This requires an assessment of risk across all the auditable areas that an auditor might examine.
- The objective of risk-based planning is to ensure that the Auditor examines subjects of highest risk to the achievement of the organization’s objectives.
- Strategic and annual audit plans must be developed through a process that identifies and prioritizes potential audit topics. The entire population of potential auditable areas, which can be categorized in many ways, is called **the audit universe**. For each element of the audit universe the risks or opportunities have to be assessed and decisions taken on other risk factors that may influence the priority to be given to each element of the audit universe (**audit objects**).
- The strategic and annual plans are important documents, which are normally presented to management. The strategic plan provides an opportunity to present the work of the internal auditor and the benefits that will arise from the audit function. It represents a shop window,

which explains what internal audit can do for management. The annual plan translates the strategic plan into the audit assignments to be carried out in the current year. The strategic and annual plans must be clearly structured and well written and should provide management with a persuasive summary of the logic supporting the judgments made on the priority given to certain topics. A structured approach to risk-based planning is an important step towards an effective audit strategy.

2.8 Tenets of a risk management framework:

2.8.1 Risk Culture and Methodologies

Thomas (2010) argued with the assumption of Kiev (2002) about organizations can have the appropriate risk management processes and systems in place; however, they must also consider creating a risk-management culture.

The surveyor continually told and observed in the research that public sector organizations were different – particularly in relation to their processes as well as culture. Moreover, although in some jurisdictions that there were risk management methodologies – especially in Europe, a theme emerged that the culture within the public sector precluded good risk management practices. This is consistent with Hood et al. (2007) finding that in reality, public sector risk management does not always match the rhetoric. Risk culture therefore is an especially important element when considering the management of risk in a public sector organization. Before beginning a specific discussion of risk culture, it is important to review the general concepts and definitions of organizational culture.

The examiner argued with that organizational Culture is sometimes seen as the softer side of an organization (Alvesson & Berg, 1993). Schein (1996) proposes that culture is one of the most powerful influencers on organizational decision making and strategy. Difficult to measure and evolutionary in nature, culture is often viewed as broadly shared and learned experiences, values, meanings, and understandings. It can be represented and communicated in symbols, rituals, myths, stories and legends, and interpreted through events, ideas and experiences.

“Culture a pattern of basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (p.12).

The investigation of T. Cooper (2010) stated Interestingly, Schein has defined culture using the word “problem,” thus implying that culture is developed in response to problems. This is a particularly valuable definition in the context of municipal strategic risk planning as, in our findings, considering a risk is often perceived as a potential threat to or problem in achieving a public sector organization’s operational goals. An examination of Schein’s definition may provide the basis for defining risk culture. “A pattern of basic assumptions” is a consistent concept in all culture definitions. It speaks to the dominant belief that culture is created through shared understanding of the organization’s norms, values, philosophy, thinking, and business processes.

The author also puts the phrase “what has worked well enough to be valid” demonstrates that past practices contribute to the present culture. This definition also brings forth three new elements not present in other definitions, namely learning through solving problems, external adaptation and internal integration, and teaching members how to react to a problem. All of these elements have particular relevance to public sector risk management. Learning through problem solving implies that as a public sector organization takes new approaches to solving problems or managing risks, the organization will learn and the culture will evolve.

As a researcher examination through interviews that observed this as a particular barrier to risk management within the public sector. There was a tendency to not want to try anything new, as there were too many stakeholder interests to manage. A theme emerged from the research that managers within the municipal public sector saw themselves as implementers of council and other government decisions rather than identifying and shaping risk.

He claims that Moreover; it is a more appropriate definition for examining public sector and municipal risk management. In their research, Ballou and Heitger (2005) present an approach for creating a risk culture, which builds upon COSO’s Enterprise Risk Management – Integrated Framework. The reason for ensuring that individuals involved in the public sector are aware of their individual risk appetite, tolerance and propensity for risk is crucial. Regardless of being a behavioral or personality trait, an individual’s risk propensity and perception are not easily changed. This will have an impact on recruitment and selection within the public sector if strategic risk management is to be addressed.

However, Sitkin and Pablo (1992) offer the suggestions: “When individuals are socialized into the value system and traditional practices of the organization, they can come to accept a world view that frames their perceptions of routine and novel problem situations. Organizational members come to view their world through the lens of their organization’s culture, which can distort their perceptions of situational risks, sometimes by overemphasizing or underemphasizing risk” (p.21)

According to the researcher observation that public sector organizations can influence and create a desired organizational culture and sometimes override the individual’s risk propensity and perception. Ultimately we found in our research that this is not happening for public sector and especially municipal government planning. It is therefore important to note individual and organizational cognitive biases contribute significantly to a risk culture.

Thomas (2010) also confirms the Drew and Kendrick (2005) six examples of individual cognitive biases that influence attitudes towards risk:

- 1) Positive illusions that lead people to believe that the problem does not exist or is serious;
- 2) Interpreting events in an egocentric manner so that credit and blame is allocated in self-serving ways;
- 3) Overly discounting the future;
- 4) Preferring the status quo and resisting change;
- 5) Not wishing to fix or prevent a problem that does not affect one personally; and,
- 6) Group thinks.

According to Griffiths (2005) Risk management is the process by which risks are identified, evaluated and controlled the extent to which the organization responds positively to the opportunities faced whilst at the same time understanding and seeking to control any factors that could prevent its success. The aim of risk management is to improve awareness of the consequences of risk taking activities, reduce the frequency of damaging events occurring (wherever this is possible), and minimize the severity of their consequences if they do occur.

The author stated that risk management and internal control are firmly linked with the ability of the business to fulfill clear corporate objectives. By embracing risk management in this way it will help to ensure that we focus on opportunities as well as dealing with possible threats. It is therefore essential that risk management be embedded in the planning process. It is also

important to demonstrate a consistent and co-ordinated approach, ensuring that there is documentation to demonstrate accountability and openness. Because there are well developed business planning and financial planning processes in place, a more formalized risk management approach can be included seamlessly into these processes and managed as part of the current reporting mechanisms.

There are many benefits to embedding risk management into the organization's culture including:

- a. Greater management focus on the issues that really matter;
- b. Reduction in management time spent firefighting;
- c. Fewer surprises;
- d. More satisfied customers;
- e. Protecting reputation;
- f. More focus on doing the right things in the right way;
- g. Greater likelihood of achieving business objectives;
- h. Fewer complaints;
- i. Increased likelihood of change initiatives and project benefits being achieved;
- j. More informed risk taking and decision making;
- k. Support for innovation;
- l. Lower insurance costs.

One of the first models we found would be useful for public sector risk management is proposed by Rossiter (2001) who argues strategic risk management requires a strong risk culture and comprehensive risk management program. In her analysis, Rossiter contends there are four key attributes of an effective risk management process – leadership and strategy; accountability and reinforcement; people and communication; and, risk management and infrastructure.



Figure 2.8.1 Key attributes of an effective risk culture

2.9 The role of the internal audit within the risk management framework.

According to leading international standards and practices, the contemporary internal audit function encompasses the examination and evaluation of the adequacy and effectiveness of public organizations’ internal control systems, business procedures, governance arrangements, risk management processes and performance of operations (IIA 2016). Internal audit supports political personnel and public managers in strengthening the risk management function and ensure the effectiveness and efficiency of control activities. Internal auditors evaluate the design and the implementation of financial and managerial control and risk management activities, while maintaining their independence by not undertaking any of these control activities.

As already highlighted, risk management is one of the core functions of a sound internal control system aiming to enhance accountable and good governance. Internal audit should maintain effective and regular communication with the public organization’s risk-management function in order to co-ordinate efforts and exchange information and reports on the identification and

evaluation of risks, as internal auditors may use such information in their own risk-based internal audit planning. This will also enhance the efficiency of internal audit activities by minimizing duplication of effort and reducing costs. However, to maintain internal audit independence and objectivity, internal auditors should not assume any first or second line risk-management responsibilities or perform any tasks related to risk management that might impact their independence when assessing the effectiveness of the risk management arrangements.

The Sultanate of Oman has developed an up-to-date Internal Audit Manual, which meets international standards. It stipulates that the internal audit function is responsible for providing reasonable assurance about the effectiveness of the internal controls, by achieving the following (Sultanate of Oman 2015):

- a. safeguarding public assets from significant losses, including those caused by fraud, waste, inefficiency and commercially unsound practices
- b. compliance with relevant laws, rules and regulations
- c. employees act in compliance with policies, standards, procedures and applicable laws and regulations
- d. conducting operations effectively, efficiently and economically in accordance with public policies and procedures
- e. accurate, reliable and timely significant financial, managerial and operating information
- f. reliable and secure management information systems
- g. Appropriately identifying, controlling, managing and responding to significant institutional and operational risks in a timely and efficient manner (OECD, 2017).

Fredrick ,Gideon & Narkiso.(2014) stated that internal auditing is an independent, objective assurance and consulting activity. Its core role with regard to Enterprise risk management (ERM) is to provide objective assurance to the board on the Effectiveness of risk management. Indeed, research has shown that board of directors and internal auditors agree that the two most important ways that internal auditing provides value to the organization are in providing objective assurance that the major business risks are being managed appropriately and providing assurance that the risk management and internal control framework is operating effectively.

Enterprise risk management (ERM) can be viewed as a natural evolution of the process of risk management. The Committee of Sponsoring Organizations of the Tread way Commission

(COSO) defines enterprise risk management as: “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

The business world is becoming increasingly complex due to new, evolving, and emerging risks. Organizations are giving risk management more consideration, but implementing an effective risk management program takes time and discipline. Internal auditors are finding they can play important roles in risk management, but there are many roles that internal audit activities are either not ready to pursue or are not proactive in pursuing. This should serve as a call for action to internal audit activities in general and chief audit executives (CAEs) in particular.

Specifically, CAEs have opportunities to:

- a. Educate and train audit committees and management on risk and risk management concepts.
- b. Provide assurance on the core internal audit roles described in an IIA Position Paper titled *The Role of Internal Auditing in Enterprise-wide Risk Management*.
- c. Seek opportunities to perform more risk management consulting services in support of whoever is managing the risk management program, and formally communicate the results of those consulting services to the audit committee and management.
- d. Evaluate strategic risks; i.e., whether management has (1) comprehensively identified key strategic risks, (2) developed prudent risk management techniques to address those risks, and (3) established sufficient monitoring of strategic risk “signposts” to identify risk occurrences in time to take the appropriate actions.
- e. Devote the time, resources, and leadership to developing internal audit teams so that they have the right level of skills and experience related to risk management.
- f. Use third-party and other internal resources to supplement the risk management skills of the internal audit activity

This call for action may be challenging for many CAEs, but those with the right level of skills, experience, and confidence, and a sufficiently high position in the organization, will be able to carry out the actions described throughout this paper and truly add value to their organizations (IIA, 2011).

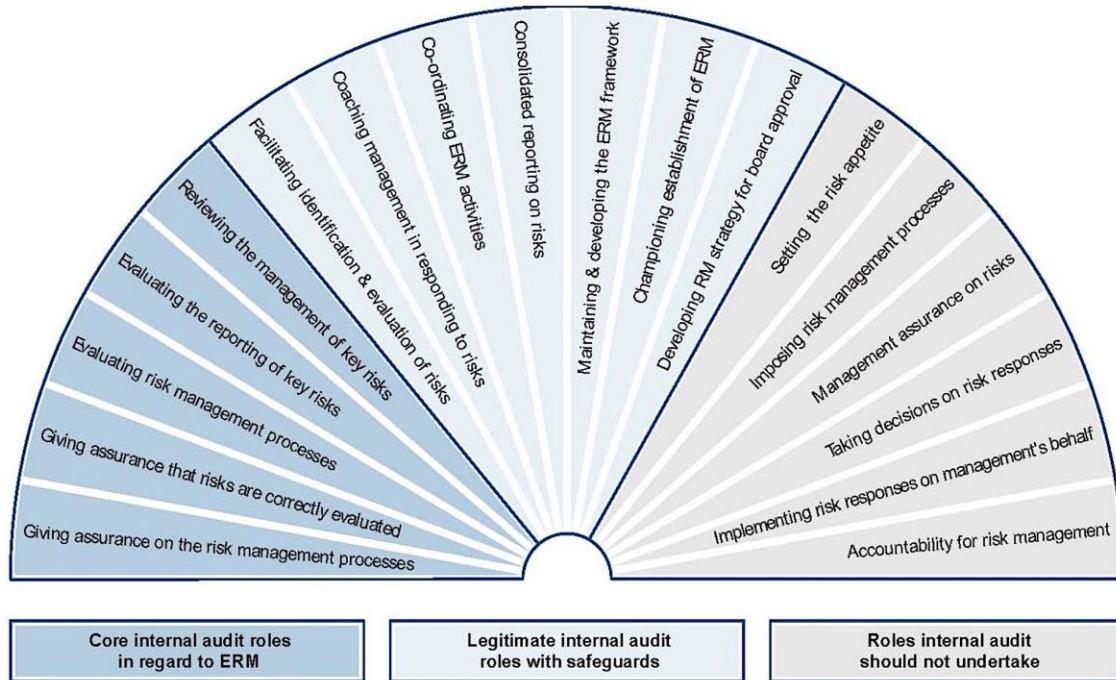


Figure 2.9.1 The IIA's model of IAs' role in ERM (IIA, 2009)

2.10 The structure of the risk management framework of the public institutes.

Marek Matejun (2014) Identified that in public sector organizations, managers should not focus only on ensuring a proper place for management mechanisms (Martin, Wanna, 1996), but should also perform a review of the entire organization and, through their actions, influence the strategic, tactical, and operational levels of its function. These requirements also apply to risk management the aim of which (generally speaking) is, on the one hand, to counteract potential threats and, on the other hand, to avoid losses, accidents, and disasters (Aven, Vinnem, 2007).

By performing this process, organizations attempt to limit the consequences of risk (Adler, Leonard, Nordgren, 1999); however, this requires time, appropriate funds, and knowledge. These effects are facilitated by proper performance of individual stages of the risk management process which include (Hopkin, 2012):

- a. understanding of the organization's objectives;
- b. identification of threats associated with achievement of objectives combined with evaluation of the probability and the strength of the potential impact of individual types of risks on the objectives of the organization;
- c. development of programs aimed at eliminating threats that have been identified; and
- d. Monitoring and evaluation of risks with the aim of finding their solutions.

Thomas Cooper (2010) asserts that trust can therefore be developed when there is an understanding of the processes and approach to risk management. This leads to another emerging theme being the need for framework or process model that was more focused on municipal risk management – recognizing the specific challenges and opportunities in managing municipalities in the Canadian socio-economic environment. Transparency in the form of formalized approaches to risk management that could be considered by a wide range of stakeholders – municipal leaders, planners, managers as well as external stakeholders such as insurance brokers – would be a definite asset for municipal planning and strategic risk management. Benefits accruing to the public sector that emerged from the research included reduced insurance costs, better contingency planning as well as an increased effectiveness in the working between public servants and elected officials. As outlined above, there are a number of framework and models available to risk managers. However, they are at levels of government (federal) or international (the Orange Book) which may have little perceived applicability for municipal risk management.

2.11 Challenges of risk based internal audit

According to Griffiths (2015) specified in his risk based audit book that the challenges to perform risk based audit through different organizations can be;

- a. Poor understanding or lack of an expertise in the control system and all aspects of organization operation.
- b. Make the prime focus on the traditional auditing /compliance audit than risk based audit.
- c. Internal Audit conflict with management. Over emphasis on control and the failure to make recommendations that are 100 per cent practical can, however, lead to such a situation.
- d. Challenges with the modern function or resistance to accept.
- e. Lack of Internal Audit co-ordination its activities with the other assurance provider in the organization, such as Risk Management, External Audit, Health & Safety, and so on. This would reduce duplication and create more focus. An approach on how to achieve such a co-ordinated approach is outlined.
- f. The Internal Audit certainly unable to be regarded as a champion. The internal audit has the opportunity to look right across the organization and identify opportunities and good practice. Sharing such ideas is key to success and recognition.

- g. Lack of the very best internal audit functions are regarded as a catalyst for change, helping the organization through the difficulties of changing environments, cultures, and so on. Another key catalyst role is bringing people together to discuss areas of concern and opportunity, a best-practice agent.

Griffiths describe in his version 2.2 books the risk based internal audit implementation the RBIA challenges discussed as:

If RBIA is to provide assurance on those risk management processes which cover all significant risks threatening the objectives of the organization, there are four elements which the CAE needs to consider:

1. The extent to which the board and management determine, assess manage and monitor risks. (The 'risk maturity' of the organization).
2. The existence of a risk register (known in these books as an Objectives, Risks and Controls Register), which lists all objectives and significant risks, and the extent to which this may be relied upon for audit planning.
3. The compilation of an audit universe, which lists those audits aiming to provide an opinion whether all inherent risks above the risk appetite are being properly managed.
4. The conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite.

The challenges in considering these elements are

1. Getting the board and audit committee to understand the new scope of internal audit.
2. Getting senior management (especially that outside finance) to understand the new scope.
3. Forming relationships with any functions responsible for 'risk management'.
4. Getting the risk maturity right.
5. Getting the risk register (ORCR) as a basis for the risk and audit universe (RAU).
6. Deriving an audit plan from the RAU.
7. Defining a risk based audit methodology.
8. Training and motivating staff to deliver risk based audits.

The challenges can be divided into those involving:

- a. People challenges may include the above specified elements on number (1, 2, 3, 4, 8)
- b. Processes challenge may include the elements specified on numbers (4,5, 6, 7)
- c. Getting the risk maturity right (4) involves both people and processes.

2.11.1 People challenge

2.11.1.1 Board and audit committee

Board members usually like to consider themselves as 'people of action!' and therefore won't always support, and spend time on, what they might consider the increase of bureaucracy in setting up a risk management framework. However, they are concerned about 'nasty surprises' and failing to obey the new regulations which are appearing in many countries. They need persuading that by identifying and assessing risks they will reduce the likelihood of

- a. 'nasty surprises' threatening the achievement of their objectives (and therefore their bonuses).
- b. failing to obey laws and regulations.

Concentrating on the business benefits of risk management and, by implication, benefits to them, is probably the best way of getting their support, which is essential in getting support from management.

2.11.1.2 Management

So managers have to accept responsibility for risks and understand that controls are not the responsibility of internal audit, and hence imposed by that department, but are now their own responsibility.

This results in a change in the relationship between internal audit and management. The 'traditional' audit approach is to notify management that an audit will take place, probably have an initial meeting to discuss the audit and any management concerns over controls. The auditors then carry out their tests and, unless any material deficiencies are found, the next contact with management is a discussion of the issues found, with recommendations.

The RBIA approach involves management to a far greater extent, and in this respect can represent a revolution for some managers, and some internal audit departments:

- a. The risks to be covered in audits will exist in all parts of the organization and audits will therefore involve managers in departments never visited before. Many risks will be very significant to the organization and the discussion of their controls will involve more senior managers and directors than might be involved in traditional finance orientated audits. These managers may be skeptical about the competence of internal audit staff to understand the issues involved in their areas and will therefore need reassurance.
- b. RBIA emphasizes management's responsibility for managing risks. Audits will involve more discussion with managers about their risks and their responses to them. There will be

an initial meeting with managers, possibly involving a risk workshop to examine risks in greater depth, and contact throughout the audit to discuss issues.

- c. The closedown meeting will be less about management's (sometimes passive) acceptance of internal audit's recommendations and more about what management are going to do about risks that are not properly managed. There should be less challenge to an audit's findings, as management will understand the reasoning behind them.
- d. The aims of management and IA coincide; both want to control risks. Thus confrontations, which can arise from the 'traditional' audit approach based on finding errors, should disappear.

The impact of this greater involvement by management is:

- a. The Board (or its equivalent) needs to establish policies which ensure management understand, and carry out, their responsibilities for risk management. Risk management needs to be embedded in the organization.
- b. The CAE will be required to 'sell' the concept and need for risk based internal audit (or internal audit with the boundaries pushed out!). A much higher profile may be necessary in non-financial areas in order to pave the way for audits that managers can understand and, hopefully, support.
- c. Audit staff will have to use more 'people' and 'business' skills, such as interviewing, influencing and problem solving. While most audit staff will welcome the opportunity to move away from audit programs to more risk and business based audits, some members of staff may find this move difficult. Training will certainly be required and some staff may have to be transferred.

2.11.1.3 Risk management

The 'risk management' function in organizations can take many roles. It is usually responsible for facilitating management's determination and assessment of risks. It is probably responsible for maintaining the organization's risk register. It may be responsible for identifying controls, scoring residual risks and commenting on those above the risk appetite.

The relationship between internal audit and any risk management function is therefore key to the effectiveness of internal audit. Since internal audit cannot begin work without assuring itself of the risk maturity of the organization and the accuracy of the risk register, it therefore has to audit the Risk Management department. If one person is in charge of both risk management and

internal audit functions, this will result in one of his/her departments auditing the other a possible conflict of interests.

2.11.1.4 Audit staff

The expansion of the audit universe to cover all risks threatening the organization's objectives requires that the auditor has sufficient knowledge to conclude on the aims noted in section 1.2.

Core roles 1, 4 and 5 involve risk management processes and are unlikely to require knowledge outside that expected of an internal auditor trained in RBIA. Providing an opinion as to whether risks are correctly evaluated, and responses are appropriate (core roles 2 and 3), will require specialist knowledge. This may be acquired as follows:

- a. Use specialist skills available in the department. For example, the knowledge of computer auditors where controls over access to a computer system require verification.
- b. Provide specialist training to auditors with general expertise. For example, provide training on the auditing of value added tax payments to an auditor who is a qualified accountant with a basic knowledge of tax calculations. In this case, the plan for the individual audit, including the risks identified, could be checked by a specialist, possibly from the organization's external auditors.
- c. Recruit specialists from inside the organization. This might be done on a permanent basis, temporary (a year, for example) or for a specific audit. Such specialists would have to be independent of the area they were auditing. For example, a warehouse manager from one overseas subsidiary could audit warehouse processes in another.

Training in the internal audit methodology would have to be provided, and the specialist auditor probably teamed up with an internal auditor.

- Use specialists from outside the organization. For example health and safety experts to audit an organization's health and safety processes. Although such specialists may work alone, they should follow the audit methodology and the scope of the audit should be clearly defined. Their audit documentation should meet the standards of the department, and be reviewed to ensure it meets the quality expected.

There are potentially major changes for internal audit staff, particularly if they are used to using audit programs which detail the work to be done, since there will probably be no audit programs! Many of the processes will never have been audited before, and the work required will have to be defined during the audit. This will require staff that can:

- a. use initiative and creativity
- b. learn and understand complex processes
- c. work from basic principles
- d. organize their work with little direct supervision
- e. communicate effectively with all levels of management and staff
- f. write concise but understandable reports

This could represent a considerable challenge for the management of the internal audit department as not all staff may have these qualities if they have been employed on filling out audit programs. Even if they have these qualities they may be unsure of the benefits of risk based internal auditing and be reluctant to move out of their 'comfort zone'. Selling RBIA to your staff may be your biggest challenge.

2.11.2 Processes

2.11.2.1 Audit resources

RBIA can justify the number of auditors required. Because the audit plan is driven by the proportion of risks on which the audit committee requires assurance, this determines the resources required. This differs from the alternative approach, whereby the resources available are determined by the budget allowed for the internal audit department, which then determines the audits that can be carried out. It also ensures that resources are directed towards checking the management of the most significant risks.

2.11.2.2 Management of the internal audit department

RBIA has some drawbacks: it is difficult to manage. If the department is used to working to defined audit programs, the time taken to carry out these is known and audits can be planned sequentially. With audits based on risks, many of which will be carried out for the first time and involve contact with senior managers and directors, it is not possible to plan with any degree of accuracy. In practice, staff work on three audits simultaneously, planning for one, carrying out fieldwork for the second and agreeing the report for the third. Setting targets and appraising staff on their achievement can become more difficult. Monitoring progress against the annual plan also becomes more difficult. The annual plan will change. Audits may be removed, for example if the operation involved is terminated, and additional audits will be included, where new risks are identified. The audit committee should be informed of these changes, as part of the regular reporting.

2.12 Prospect of risk based internal audit in public institutes

Griffiths, (2005) identified that Risk-based auditing provides the opportunity to:

- a. audit the things that really matter;
- b. enhance the reputation of Internal Audit;
- c. provide measurable added value;
- d. refocus your reports to enhance their impact;
- e. create a partnership with management;
- f. break down the barriers;
- g. work with management to help them manage risks;
- h. identify greater opportunities for the organization;
- i. Focus on the future rather than the past.

According to Benli1& Celayir (2014) assertions about the Contributions of risk-based internal audit to the business can traditionally be grouped under four headings.

Strategic benefits:

- a. It helps for easier adaptation to changing conditions by developing a consistent and comprehensive approach for the risk management.
- b. It provides a better understanding and management of the risks.

Performance:

- a. It helps increasing the risks of opportunity by reducing negative risks.
- b. It provides the risks to be identified correctly and the existing management and internal control to ensure the best performance.

Aligning the Resources:

- a. It creates ability to use resources most efficiently and creates the opportunity to get rid of unnecessary costs.
- b. It eases the alignment between sources.

Managing the Unexpected:

- a. It creates the ability to give the correct answer to unexpected demands and challenges in the face of deviations from targets.
- b. It eases to understand the risks waiting the business and their actual effects.

CIIA (2014) point out that the advantage of RBIA should be able to conclude:

1. Management has identified, assessed and responded to risks above and below the risk appetite;
2. The responses to risks are effective but not excessive in managing inherent risks within the risk appetite;
3. Where residual risks are not in line with the risk appetite, action is being taken to remedy that;
4. Risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively;
5. Risks, responses and actions are being properly classified and reported.

2.13 Review of empirical studies

In this part attempt is made to explore other research conduct on risk based audit. Accordingly, Machaya Vuramayi (2014) undertakes research on an investigation of the challenges of implementing the Risk Based Internal Auditing (RBIA) in the Zimbabwe national army (ZNA).

The investigation of the challenges of implementing the RBIA in the ZNA was prompted by the growing calls for effective, efficient and economic utilization of the finite audit resources to achieve the most impact in terms of IA service. The objectives of the study were to identify the key tenets of a RM framework, determine the role of IA within the risk management (RM) framework, determine the adequacy of the RM framework of the ZNA, identify areas of significant risk, and suggest a RM model that is best suited to address the identified risks.

The study was conducted in the ZNA King George 6 Barracks. A sample of 43 officers from the departments of Finance, Procurement, IT, Pay, Military Police and IA were chosen as respondents using purposive (judgmental) sampling techniques. Thirty-seven self-administered questionnaires and six personal interviews were used to gather data.

Findings from the study revealed that the major challenges were to do with the absence of a documented and approved RM policy in the Army, lack of institutional structures for RM, decentralized RM processes not appropriately embedded within the existing hierarchical structures of the Army, and lack of consciousness on the part of the generality of members within the rank and file of their individual risk responsibilities. From the study, it was

recommended that a RM policy framework be put in place, risk education and training form part of every soldier's training programs and risk structures be established with clearly defined risk responsibilities. Above all, it was recommended that the AI implements RBIA in order to concentrate effort on areas of heightened risks.

Orano (2015) embark on research Risk based audit in practices and financial performance; a case study of Ethiopian airlines(for –profit) The purpose of the study was to determine risk based audit practices and examine whether the risk based audit practices affected financial performance in case of Ethiopian Airlines.. The study found that Ethiopian airlines (EAL) has adopted risk based audit practices such as risk assessment, risk management, risk based audit plan, follow-up audit, internal audit capacity and internal audit standards. Study also found that risk based audit has positively affected profit at 65.4% and statistically significant. Moreover, financial performance indicators such as profit, available ton kilometers, available seat kilometer, and revenue showed dramatic increment after adoption of risk based audit.

These indicate that risk based audit practices affected financial performance of the EAL. However, the study showed that there is no enterprise-wide risk registrar book, risk assessment was not carried out in all work unit of company, there is no separated risk management department, risk appetite was not defined, lack of required manpower in internal audit department, inadequate trainings and development programs for internal auditors, and the impairment of chief executive internal audit reporting line require the attention of tope management. Therefore the study recommend the Management to take the responsibility of enhancing risk based audit practices by developing enterprise-wide risk registrar book, perform adequate risk assessment, form risk management department, define risk appetite and emphasis on internal audit department capacity and reporting line so as to enhance the risk based audit outcome.

Mihret and Woldeyohannis (2008) studied Value-added role of intern audit: an Ethiopian case study. The purpose of this study was to draw inferences – from the results of an Ethiopian public sector corporation (for-profit) case study – on how the attributes of a value-adding internal audit department would vary among organizations. The results highlighted that traditional/compliance audit is dominant in the organization studied as contrasted with value-added auditing. The paper concludes that goals and strategies pursued and the level of risk faced by organizations to which internal audit provides service; appear to shape the attributes of a value-adding internal audit

department. The study also verified that the quality of strategic planning for and marketing of, internal audit would influence the extent to which an appropriate value-added profile is attained in a particular context.

Mohammed (2011) examined internal auditing and risk assessment in Ethiopian public enterprise context (for profit) organization. 20 public enterprises were purposefully selected. Mixed research approach was used and the data were collected by using questionnaires and document review. Survey results showed that all public enterprises have internal audit function; operational audit requires most resources, with compliance audit second important audit type. The amount of audit resources devoted to risk assessment reveals the relative relevance of this kind of activity. Results also showed that many Ethiopian public enterprises were introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process. Hence, for internal audit functions that were not incorporated control risk self-assessment, it is better to incorporate for effective risk assessment. Thus, this study will be beneficial in terms of the decision making of the board of directors, audit committee of the organization and other regulatory bodies.

2.13.1 Knowledge gap of the studies

The last three studies by Orano (2015) and Dessalegn & Getachew (2008) and Mohammed(2011) studies were focused on for - profit organizations in relation to Risk Based audit or the value adding role of internal audit in the for profit companies perspective. Because of their studies limited on the for profit organization they cannot cover the not for profit public organization.

On the other hand the first researcher Machaya Vuramayi(2014) undertakes the research on an investigation of the challenges of implementing the Risk Based Internal Auditing (RBIA) in the Zimbabwe national army (ZNA). However the researcher made his research on the not for profit public organization there is a limitation to address many public organization problems which are not enables to generalize as a whole and the study also did not undertake the prospects that will enables to effective implementation of RBIA in the institutes.

Considering the above gaps and believing the importance of the topic to be studied and to achieve the reliable findings through discovering different public organization (not for profit organization) and the absence of research regarding the title of the study especially Challenges and prospects of Risk based internal audit in Ethiopian public institutes.

The majority of research is focused on financial and compliance audit and as to the best of the researcher knowledge there is lack of research in addressing the reasons why the majority of the public internal auditors did not undertake Risk based internal audit and about the perspective of risk based internal audit in Ethiopia public institutes. This study is undertaken to fill the gaps.

CHAPTER THREE

3. RESEARCH DESIGN & METHODOLOGY

3.1 Research Methods

The study is designed to identify the problems that have been observed as bottle neck in practice of the risk based audit and recommend possible solution to the concerned body. The study methodology employed in the research is mixed method (Quantitative and Qualitative data). Therefore, for this study descriptive survey method of study was employed as it is found to be appropriate. Of course the relevance of this approach for such purpose has been noted by Seyoum and Ayalew(1989:17) as well as Anderson(1990:37).

3.2 Source of Data

The data for this study were both the primary and secondary sources. Primary data (Via questionnaires distributed to internal auditors, audit directors and selected inspection officers and an interview with the selected organization managers ,inspection directorate director and team leader) and secondary data (examination of selected internal audit annual plan and quarterly audit reports, office of auditor general (OFAG) three years annual audit report (2006/2007, 2007/2008, /2008/2009) and review of different related policy ,regulations, procedure, manuals and directions).

3.3 population, sample size and Sampling techniques

Since this study was mainly focus on RBIA and its challenges and prospects in selected public bodies located in Addis Ababa. In general this study were cover 12 major selected public sectors from three categories of administrative and general service sector, social sector and economy sector.

There are 178 budgetary public bodies from those of them 53 ministries under the economy sector, 50 under Administration &General Services sector and 75 under social sector. From these total 178 federal sectors 46 are out of Addis Ababa and the rest of 132 federal public institutes which are under the level of agencies, commission, institution, universities &authorities 12 public bodies are purposely included in the study based on the their different function from three categories according to their administering and managing huge amount of government resources and their working environment is also very complex in nature and exposed to high risks and

assumed they will represent the rest of the organizations which are in the same function in the three category. Since, the study used purposive sampling it uses' the whole targeted population of the selected organization it does not use the sample size and sampling techniques.

From 3 classification; 4 are from administrative and general service sector, 5 are from social sector and 3 are from economy sector and ministry of finance (MOF) inspection directorate staff which has an authority role by inspecting the public internal auditors work and follow-up their quarterly audit report and annual audit plan and support them according to the received report and plan whether it is prepared and reported based on the standards or not. In addition to that the inspection directorate offices act as an auditor when the absence of an internal audit in the institutes.

Table 3.3.1. Details about targeted institute's population.

No	Name of selected public institutes	Gender			Category of sectors
		M	F	total	
1	Public Procurement and Property Disposal Service	2	3	5	Admin & General service sectors
2	Federal supreme court	2	2	4	Admin & General service sectors
3	Ministry of Finance	3	6	9	Admin & General service sectors
4	National Planning commission	2	-	2	Admin & General service sectors
5	Food ,medicine &health care admin &control authority	4	1	5	Social sector
6	Addis Ababa university (main campus)	2	2	4	Social sector
7	Ministry of Education	4	1	5	Social sector
8	St. Peter's Tb. Specialized Hospital	3	1	4	Social sector
9	Higher Education Quality & Relevance Agency	3	-	3	Social sector
10	Ministry of Urban Development and & Construction	4	2	6	Economy sector
11	Ministry of Mines; Petroleum & Natural Gas	5	3	8	Economy sector

12	Transport Authority (head office)	4	4	8	Economy sector
13	Inspection directorate officers	3	12	15	Inspection directorate
	Sub Total population for questionnaires	41	37	78	
14	Interview 16=12managers + 4 (1 inspection director + 3 team leaders from inspection)	15	1	16	Selected organization &inspection directorate
	Total	56	38	94	

3.4 Instrument of data collection

Data were gathered through via questionnaires distributed to internal auditors, internal audit directors, team leaders and inspection officers, and interview with the management of the organization and the inspection directorate director and team leaders of the three sectors, examination of selected internal audit annual plan and quarterly reports, OFAG three years annual audit report (2006/2007,2007/2008 and 2008/2009) and review of government policy, procedure, rules, regulations and manuals. Questionnaires were drafted based on the research questions, objectives of the study, the reviewed literature and the intended data to collect. A total 35 questionnaires were distributed to internal auditors including directors and 12 interview questions prepared to 12 organization managers, 1 inspection director and 3 inspection director team leaders. The questionnaires were given to the advisor and experts in the area to judge the content validity. Then based on the comments and suggestions of the experts and advisors' appropriate adjustments and correction was made. In addition, the internal consistency of the instrument was tested using Statistical Package for Social Sciences (SPSS *version 20*) software. Finally, the questionnaires were distributed to selected 12 public organizations with the necessary explanation on how to fill them. Continuous follow up was made in collecting them. Interviews were also be made to 12 organization managers, 1 inspection director and 3 inspection director team leaders.

3.5 Data analysis tools

In view of the descriptive nature of this study, the raw data was collect through questionnaires carefully tabulate. Interviewing on the major issues the data presentation and analysis. Depending on the type of basic questions and nature of the data, a descriptive method of data analysis (descriptive statistics SPSS *version 20*) such as frequency and percentage was used.

3.6 Reliability and Validity of data

To test the reliability and validity of the questioner one of the common methods to test the reliability and validity of data collected through questionnaire is use of Cronbach's alpha coefficient. Reliability as an attribute of an instrument used to measure consistency. Consistency indicates that an instrument has constructive value it used to measure. A commonly accepted rule of thumb for describing internal consistency using Cronbach's alpha presents is as follows.

Table 3.6.1 Lee Cronbach' Reliability Estimation Table

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

Table 3.6.2 validity Statistics

Case Processing Summary			
		N	%
Cases	Valid	71	91.0
	Excluded	7	9.0
	Total	78	100.0

a. Listwise deletion based on all variables in the procedure.

Table 3.6.3 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	N of Items
.850	35

Source; Survey Results

The Cronbach's alpha for data collected for 35 components under the six variables is 0.885(approximated to 0.9). This indicates that the survey instrument used is highly valid and the data are highly consistent because the Cronbach's alpha is ranged in an excellent measure of internal consistency.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter contains presentation, analysis and interpretation of data collected from various sources. It shows the statistical results of the questionnaires and interviews that were administered and conducted within the identified target population. As already mentioned to in Chapter 3, the researcher utilized tables and pie charts to depict data collected in order to facilitate data analysis and interpretation. Statistical program of social science (SPSS 20 version) which is specialized statistics program that can provide sufficient tools for analyzing the collected data.

In descriptive statistics, frequency counts and percentage mean and standard deviation will be used to analyze various characteristics of the same population. This statistical tool helps to determine the relative standing characteristics such as sex, age, academic qualification and work experience. The tools will also be used to analyze variables related to the topic under study for each variable and the findings are presented in tabular summaries, and their implications discussed. The essence of this chapter is to answer the research questions as identified in Chapter one, and ends with a summary.

35 questionnaires distributed to 78 internal audit directors, internal audit team leaders, senior internal and junior internal auditors at federal level and ministry of finance inspection directorate staff members; 71 (91%) questionnaires were returned out of the total targeted members and the rest 7(9%) did not returned. So the analysis was based on this 71 respondents" response.

According to Salkind (2010:502) and Babbie (2012:173), the threshold of a „very good“ response rate that is acceptable to represent the population from questionnaires must be at least 65% and 70% respectively. Thus, in the researcher’s opinion, the response rate was highly remarkable and makes the research highly reliable and valid.

4.2. Profile of Respondents

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly the respondent's variables presented in this research include gender, age, educational level and experience of the employees these are shown in the tables and discussed in the following sections.

Table 4.2.1 Gender of the respondent

gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	35	44.9	49.3	49.3
	female	36	46.2	50.7	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

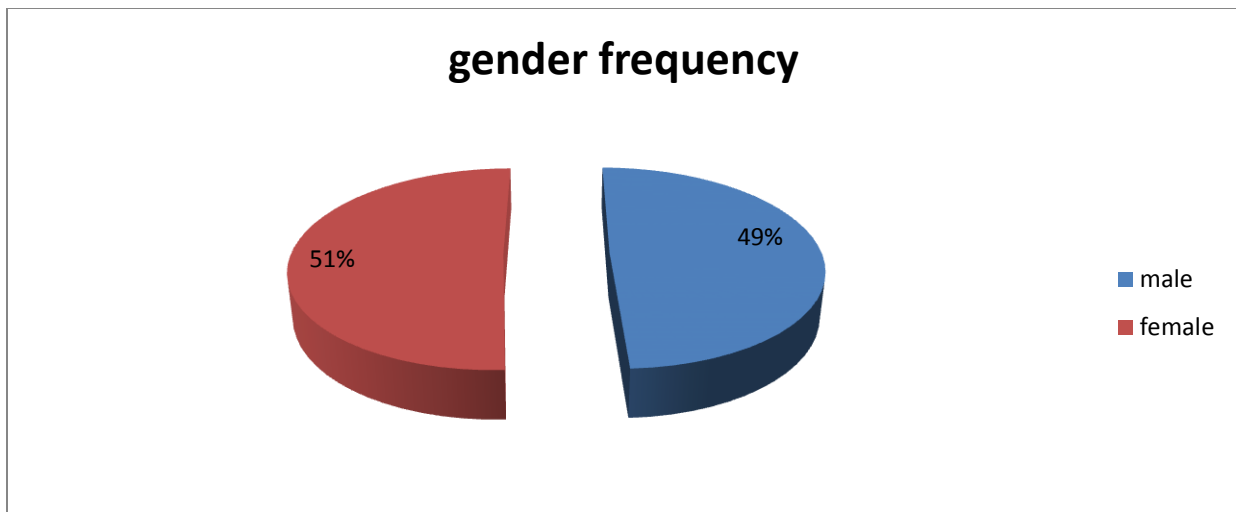


Chart 4.2.1 gender frequency

As indicated in the above table and chart the gender proportion of female respondents is 50.7 % while the male respondents were 49.3 %. This implies that the majority of the respondents were female.

Table 4.2.2 Age of the respondent

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 25	1	1.3	1.4	1.4
	25-30	19	24.4	26.8	28.2
	31-35	10	12.8	14.1	42.3
	36-40	12	15.4	16.9	59.2
	41-45	14	17.9	19.7	78.9
	46-50	7	9.0	9.9	88.7
	above 50	8	10.3	11.3	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

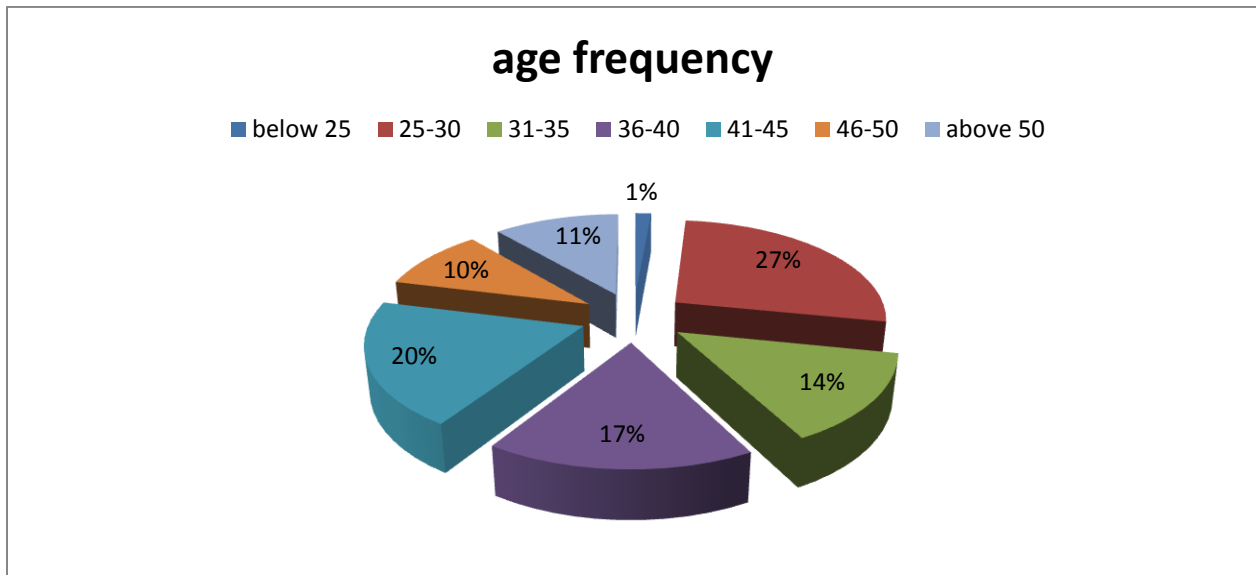


Chart 4.2.2 age frequency

As indicated in the above table With respect to the age of the employees, 1.4% of the respondents were below 25, **26.8** % of the respondents were between 25 and 30 years of age, 14.1 % were aged 31 to 35 years, 16.9% aged 36 to40 , 19.7 % aged 41 to 45, 9.9 % aged 46 to50 and 11.3% aged above 50.

Table 4.2.3 Field Of study of the Respondents

Field of study		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	accounting	50	64.1	70.4	70.4
	management	14	17.9	19.7	90.1
	economics	6	7.7	8.5	98.6
	other	1	1.3	1.4	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

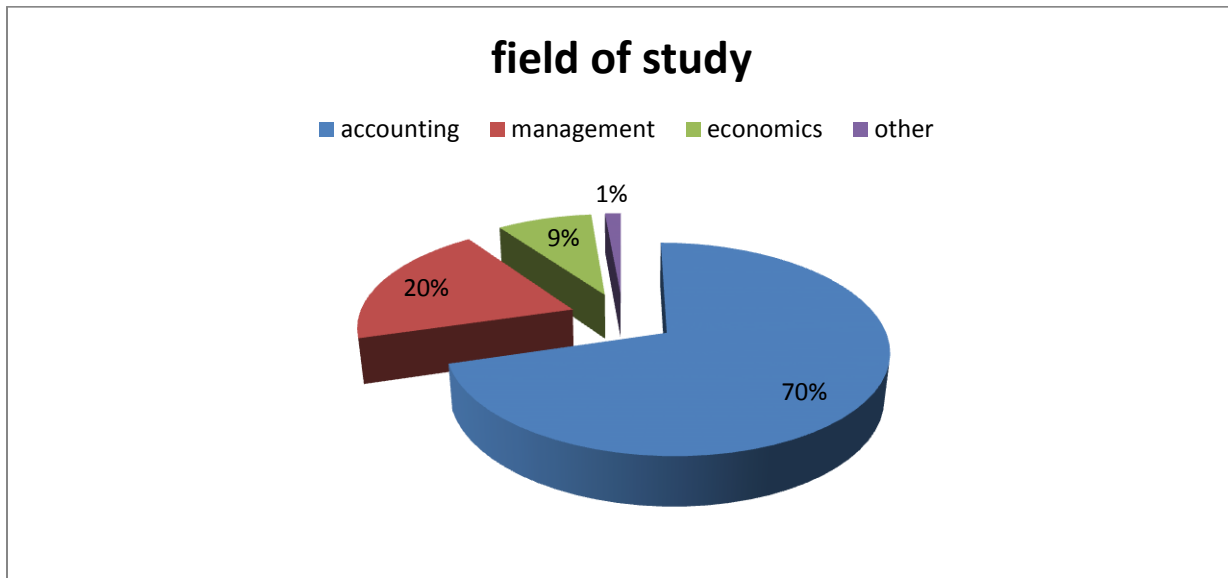


Chart 4.2.3 field of study

Risk management is primarily the responsibility of management. The broader category of risk management is operational and accounting control. Obviously the respondents with knowledge of management and accounting understand the concept of risk management than others. Thus the examinations made to consider the areas of qualification of the respondents presented in table 4.2.3 indicated that 70.4% of the respondents were qualified in accounting and 19.7% were qualified in management. This means the respondents had at least had the theoretical education on the concept of risk management system.

In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand about the risky areas in their organization.

Table 4.2.4 Academic qualification of respondents

Academic qualification		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	8	10.3	11.3	11.3
	First Degree	48	61.5	67.6	78.9
	MA/MSc	15	19.2	21.1	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

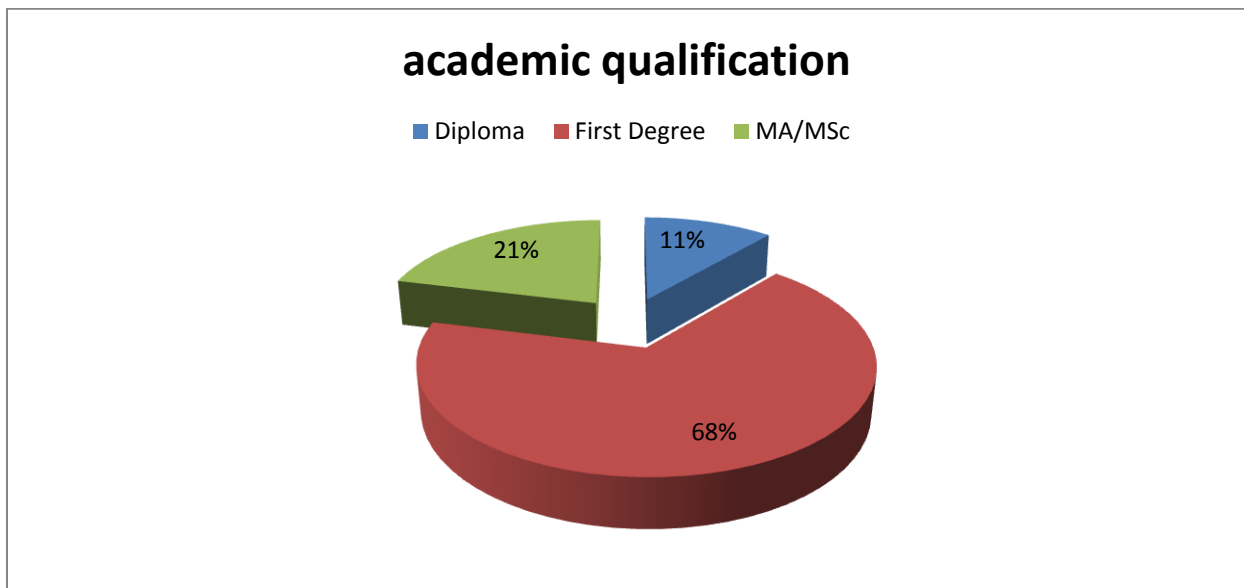


Chart 4.2.4 academic qualification

Another assurance of employees to competence that contributes to effectiveness of risk based internal audit is the level of education the employees possesses. This competence is referred to as academic competence. The risk management system reveals that a good education level has a positive impact on effectiveness of risk based internal audit and risk management framework. As summarized in the above table, the respondents (88.7%) were qualified in degree and above

which is favorable. This is an indication that the respondents are also at adequate education level to understand the concept of risk based internal audit.

Table 4.2.5 Level of Experience in current organization

Level of experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 Year	8	10.3	11.3	11.3
	1 - 3 year's	19	24.4	26.8	38.0
	4 - 6 years	9	11.5	12.7	50.7
	7 - 9 years	7	9.0	9.9	60.6
	10 years or more	28	35.9	39.4	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

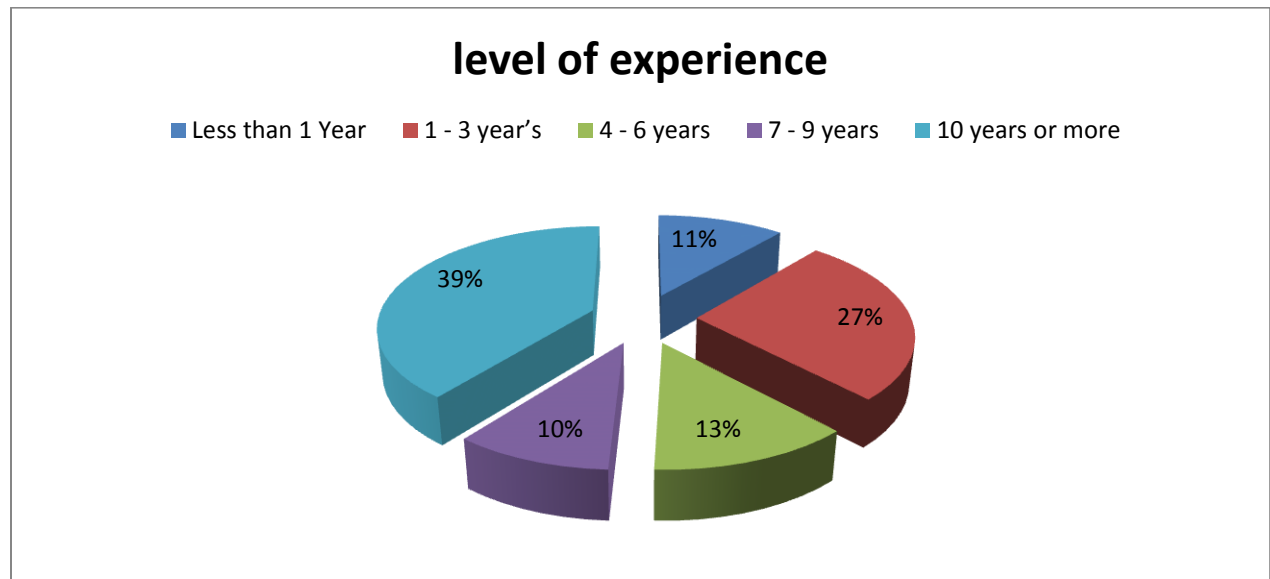


Chart 4.2.5 level of experience

As indicated in the above table With respect to the level of experience, 11.3 % of the respondents were below 1 years of experience, 26% of the respondent were experienced 1 to 3 years and 12.7 % 4 to 6 years,9.9 % 7 to9 years ,and 39.4% experienced greater than 10 years .This indicate that more than 88.8 % of the respondents have better experience in their current organization to understand the organization risky areas and risk based internal audit.

Table 4.2.6 Respondents Job Position

Job Position		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	junior auditor	18	23.1	25.4	25.4
	senior auditor	34	43.6	47.9	73.2
	team leader	7	9.0	9.9	83.1
	audit director	12	15.4	16.9	100.0
	Total	71	91.0	100.0	
Missing	System	7	9.0		
Total		78	100.0		

Source: survey result

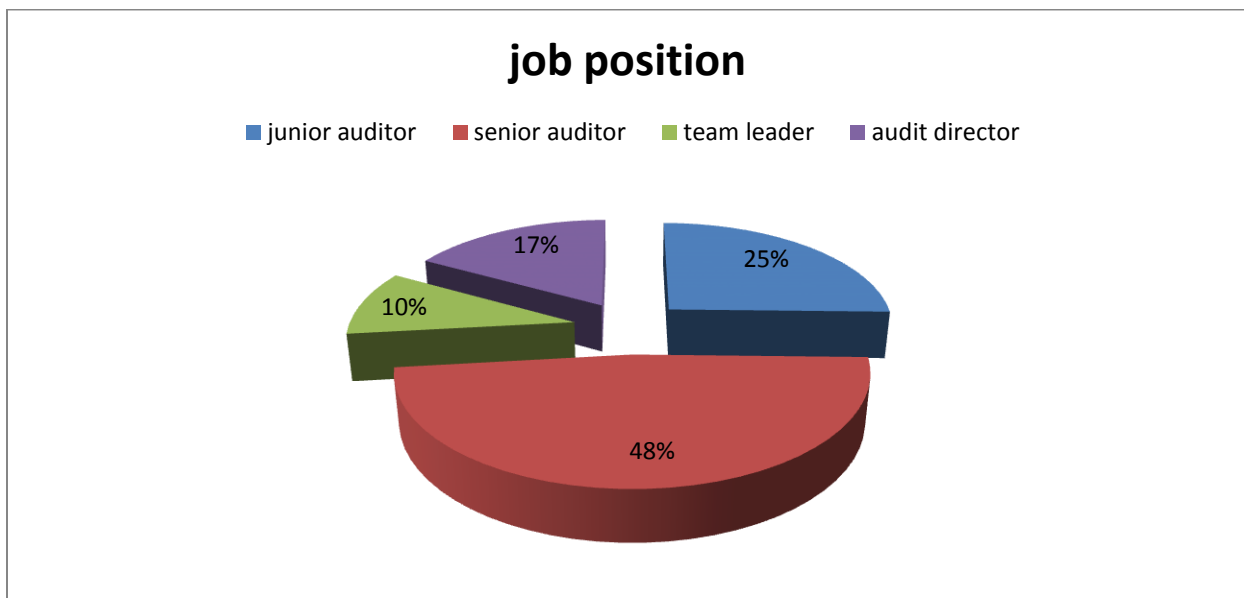


Chart 4.2.6 job position

As indicated in the above table with respect to the job position, 25.4 % of the respondents were junior auditor, 47.9% of the of the respondents were senior auditor, 9.9% of the respondents were team leader and 16.9% of the respondents were audit director. This indicates that more than 74.7% of the respondents were the senior auditor, team leaders and audit directors of the organization to better understanding of the risk based internal audit.

4.3. DESCRIPTIVE STATISTICS RESULT & DISCUSSIONS FOR QUESTIONNAIRES'

This section presents the results of the descriptive statistical analyses of the data and their interpretations. The descriptive statistics used are the means C.R Kothari (2004) which is the simplest measurement of central tendency and is a widely used measure the C .R Kothari (2004) Standard deviation is most widely used measure of dispersion of a series. Standard deviation is defined as the square-root of the average of squares of deviations, when such deviations for the values of individual items in a series are obtained from the arithmetic average. The main purpose of using this statistical parameter is to interpret the average response rate of respondents for each challenges and prospect of risk based internal audit questionnaire. The respondents were to give their independent opinion on the challenges that facing in the implementations of RBIA in their organization.

According to Kajuju (2012), the scores of strongly agree /agree have been taken to present a variable which had a mean score of 3.5 to 5 on the continuous Likert scale; ($3.5 \leq S.A < 5$). The scores of 'neutral' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale; ($2.5 \leq N < 3.4$). The score of disagree/strongly disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ($0 \leq S.D < 2.5$). A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents. In this research, the researcher used his judgment based on the above range of scoring of Kajuju (2012 "Any score can be assigned as long as the intensity of the response pattern is reflected in the score and the highest score is assigned to the response with the highest intensity." (Renjit Kumar, Research Methodology, pp. 161). So as to make the data analysis of questionnaires easy and manageable, the researcher groups the questionnaires" standing from the interviewee responses for some questions based on their nature and focus area. Therefore the data analysis for each grouped questionnaires described as follows:

4.3.1 The extent of risk based internal audit function

The researcher sought to gather information that answers the research objective of the extent of risk based internal audit function create the effective risk based internal audit. Respondents were required to indicate whether the public organizations has risk based approach annual audit plan , in the risk-based audit planning the risk factors taken into account, in the risk assessment activity

internal auditors works in co-operation with the line management, the public internal auditors functioning in risk based approach rather than traditional auditing approach/compliance and whether the internal auditor believe that there is a clear and well understood organizational objectives and goal. Table 4.3.1 below is a summary of the responses in respect of the six sub-research questions of the first objective.

Table 4.3.1 Descriptive Statistics of questionnaires response related the extent of risk based internal audit function

Descriptive Statistics					
questionnaires related to the extent of risk based internal audit function	N	Minimum	Maximum	Mean	Std. Deviation
The internal audit annual plan is prepared according to risk based approach.	71	1	5	2.31	1.260
In case of risk-based audit planning the risk factors taken into account in your organization.	71	1	5	2.37	1.222
The risk assessment activity have implemented in all the functions and processes of the organization.	71	1	5	2.45	1.080
In your organization the risk assessment is carried out by internal auditors in co-operation with the line management.	71	1	5	2.28	.881
The internal audit is functioning in risk based approach rather than traditional auditing approach/compliance.	71	1	5	2.49	1.081
There is a clear and well understood organizational objectives and goal.	71	1	5	3.92	.824
Valid N (listwise)	71				

Source: survey result

Except a limited no of respondents some of the respondents dis agree with the questions under the extent of risk based internal audit function, almost all mean responses are to some extent are the same in the mean value 2.31 implies that majority of respondents believe that the internal

audit annual plan is prepared not according with risk based approach and mean 2.37 indicates that the risk factors did not taken in to account in the internal audit annual planning of most public organization. Mean 2.45 indicate that implementing the risk assessment activities in all the functions and processes of the organization is weak and the mean 2.28 indicated that the risk assessment is not carried out by internal auditors in co-operation with the line management.

The mean 2.49 shows that the majority of the respondents answer agreed with their auditing function is not based on risk based approach and it indicates that their approach is more dependent on traditional/compliance auditing and their main concern is financial transaction investigation rather than auditing based on risk assessment. The other results that indicated by the highest mean value 4.01 the majority of the respondents agreed on the presence of clear and well understood organizational objectives and goal in the institutes.

The majority of the respondents answer indicate that they are agreed on there is a lack of risk based audit planning to perform the function and some of the written response remark as a reason for that they could not address the whole organizational activity because of number of internal audit staff is not enough ,dynamic and complex nature of the organization function and lack of professional competency to consult and give assurance service on some areas and in addition that they also indicate that the government interest also to be focused on the financial audit makes the existence of risk based audit in the public organization is to be rare and the rest respondents believed that the risk based auditing approach is applied in their organization to some extent and mention as an indication it is implemented on the use of fuel , internal income and procurements, follow and check the core process working but the extent is in a minimum level and some of them indicated that even though the risk based plan is prepared and trying to assess the risk the actual auditing practice is not implemented because of lack of professional competency and limited number of audit staff in the department to perform.

From available literature *IACOP (2014)* reviews that Planning provides for a systematic approach to internal audit work and require knowledge covering a wide range of issues in public management, including risk assessment and internal control. It helps Internal Audit units to produce effective risk-based strategic and annual plans and provide guidance on planning and risk assessment that can be used as a set of principles by central units responsible for advising on the development on Internal Audit in their own countries.

Hematfar & Hemmati (2013) aggregate that Risk-based auditing is a new approach to the practice whose aim is to improve the quality and effectiveness of audits, since determining the appropriate nature, timing, and extent of substantive testing allows for higher quality audits at shorter time. Substantive testing is limited where there is internal control reliance and extensive where there is no internal control reliance (Forsati, 2002). Also the author ascertained that the new methodology allows auditors to control risk at an acceptable level, thus achieving a high level of reliability while reducing time and cost of auditing. Given the importance of this new auditing approach, it is imperative to examine and compare it with the traditional auditing approach (Kratchman & Blay et al., 2008).

4.3.2 Tenets of a Risk Management Framework

The researcher sought to gather information that answers the research objective of the constitute the tenets of a sound risk management framework. Respondents were required to indicate whether the public institutes has an integrated RM policy identifies, the presence of a good Culture and attitudes towards controls and risks, an integrated risk management policy ,stakeholders responsibility in RM, devoted risk management unit in the organization .

Table 4.3.2 Descriptive Statistics of questionnaires response related Tenets of a Risk Management Framework

Descriptive Statistics					
Questionnaires related with the Tenets of a Risk Management Framework	N	Minimum	Maximum	Mean	Std. Deviation
There is a good Culture and attitudes towards controls and risks.		1	5	2.82	1.427
There is an integrated risk management policy in the organization.	71	1	5	2.44	1.168
The Organization risk management is an all stakeholders' responsibility.	71	2	5	3.13	1.027
There is a devoted risk management unit in the organization.	71	1	5	2.65	1.160
Valid N (list wise)	71				

Source: survey result

Table 4.3.2 shows that mean 2.82 indicated that the majority of respondents are neither agreed nor dis agreed on the presence of good culture and attitudes towards controls and risks in their organization and mean 2.44 indicated that the respondents strongly dis agreed on the presence of integrated risk management policy in the public organizations. Mean value of 3.13 indicated that the majority of the respondents were neutral with the presence of risk management function is an all stake holders responsibility and the mean value 2.65 indicate that there is no a devoted risk management unit in the public institutes which indicates that there is no an established risk management department in the organization.

According to the indicated result and their written response the Majority of respondents agreed on there is lack of well understanding and good culture towards risk and control among the whole organization society and there also no risk management policy/principle in their organization and they ascertain that there is no an established risk management framework; also the respondents indicate that even though the presence the risk is known by top management they are fail to establish the risk management framework in the institute which indicates that there is a lack of competency among the responsible body and establish risk management structure in the organizations; on the other hand few respondents indicate that their organization is trying to manage the risks and on the way to establish the risk management framework.

From the available literature Cooper (2010) aggregated with the assumption of Kiev (2002) about organizations can have the appropriate risk management processes and systems in place; however, they must also consider creating a risk-management culture. And also his research findings ascertained that risk culture is an especially important element when considering the management of risk in a public sector organization. Before beginning a specific discussion of risk culture, it is important to review the general concepts and definitions of organizational culture.

4.3.3 Role of IA in Risk Management

It was pertinent that the researcher seek respondents' views on the responsibilities of an IA function within the framework of RM. Four sub-research questions were therefore constructed for respondents to indicate what they believe should be the duties and responsibilities of the public Internal Audit Department in RM. Table 4.3.3 below shows the respondents' views pertaining to the role of IA within the RM framework.

Table 4.3.3 Descriptive Statistics of questionnaires response related the role of IA in Risk Management

Descriptive Statistics					
Questionnaire related with the Role of IA in Risk Management	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditor advice the manager at all levels on RM processes	71	1	5	2.59	1.460
Internal audit regularly reviews risks to assets and resources.	71	1	5	2.92	1.262
Internal audit identifies risk management weaknesses in the organization risk management and recommends improvements.	71	1	5	3.07	1.366
Internal audit regularly runs risk management consultation in the organization.	71	1	5	2.82	1.302
Valid N (listwise)	71				

Source: survey result

Table 4.3.3 clearly shows all of the mean value shows less than 3.00 and more than 2.5 that indicate the majority of the respondents are neutral or believed that internal audit has weak role in risk management process. The mean 2.59 respondents indicate that internal auditor has poor advising role to the manager at all levels on RM processes and the mean value 2.92 indicate that the respondents believe on that there is weakness that the internal audit to review regularly risks to assets and resources. The mean **3.07** indicate the majority of the respondents believed that internal audit identifies risk management weaknesses in the organization and recommends about the improvement. However the respondents agree with they have role in identifying risk management weaknesses and recommends to be improved that the mean 2.82 indicate that internal audit did not regularly runs risk management consultation in the organization. And the interviews ascertained that there is a poor internal audit role in risk management process.

The majority respondents written response indicated that the internal audit function is more dependent on the financial audit and to some extent they are trying to verify the internal control

weaknesses and the internal audit plays an advising role to the management to improve the internal control system; they trying to assess the risk and evaluating the adequacy of the risk management system, try to ascertaining the safeness and protection of property asset.

Available literature indicate that as already highlighted, risk management is one of the core functions of a sound internal control system aiming to enhance accountable and good governance. Internal audit should maintain effective and regular communication with the public organization’s risk-management function in order to co-ordinate efforts and exchange information and reports on the identification and evaluation of risks, as internal auditors may use such information in their own risk-based internal audit planning. This will also enhance the efficiency of internal audit activities by minimizing duplication of effort and reducing costs. (Sultanate of Oman 2015):

4.3.4 Adequacy of Risk Management Structures in the public organization;

However the fact that there is no documented and approved RM policy, it was necessary to assess the adequacy of RM structures within the public organization. To achieve this, the researcher sought respondents’ views on the adequacy or otherwise of the decentralized RM structures to address areas of heightened risks. Table 4.3.4 below is a summary of respondents’ views relating the adequacy of RM structures in the public organization:

Table 4.3.4 Descriptive Statistics of questionnaires response related the adequacy of Risk Management Structures in the public organization;

Descriptive Statistics					
Questionnaire related with Adequacy of Risk Management Structures in the public organization	N	Minimum	Maximum	Mean	Std. Deviation
An elaborate risk management structure exist which adequately address the organization’s risk profile	71	1	5	2.11	1.008
A risk management framework has been developed to address areas of heightened risk.	71	1	5	2.07	1.019
It is necessary to adapt contemporary risk management processes in the organization.	71	2	5	3.79	.893
Valid N (list wise)	71				

Source: survey result

Table 4.3.4 the response clearly shows that in mean value 2.11 majority of the respondents are strongly disagree with there is an elaborate risk management structure in the organization and mean value 2.07 indicates that disagreed in risk management framework has been developed to address the areas of heightened risk. The highest mean 3.79 indicate that majority of the respondents strongly agreed on the necessity to adapt contemporary risk management processes in the organization which adequately address the organization’s risk. It indicates that there is no risk management structure in the organization and majority of the respondents believed that it is needed to adapt adequate risk management process in the organization.

Literatures identified that M.Matejun (2014) aggregate public sector organizations, managers should not focus only on ensuring a proper place for management mechanisms (Martin, Wanna, 1996), but should also perform a review of the entire organization and, through their actions, influence the strategic, tactical, and operational levels of its function. These requirements also apply to risk management the aim of which (generally speaking) is, on the one hand, to counteract potential threats and, on the other hand, to avoid losses, accidents, and disasters (Aven, Vinnem, 2007).

4.3.5 Challenges related with human development

Here, the study also sought to establish the extent to which respondents agreed or disagreement with the statements relating to the human development of risk based internal audit in the implementation of RBIA in the organization and the researcher described with descriptive Statistics in the **table 4.3.5** below and analyzed as follows;

Table 4.3.5: Descriptive Statistics of questionnaires response related to human development

Descriptive Statistics					
questionnaires related to human development	N	Minimum	Maximum	Mean	Std. Deviation
Special skills available in the department	71	1	5	2.14	1.004
Staff training (regular training) on RBIA.	71	1	5	2.15	1.203
Motivation to maintain IA personnel	71	1	5	2.44	1.118

Table 4.3.5: Descriptive Statistics of questionnaires response related to human development

Number of experienced professionals.	71	1	5	3.07	1.175
Organization has taken necessary measures to support capacity in audit team.	71	1	5	2.46	1.119
Valid N (list wise)	71				

Source: survey result

The findings as shown in the above **Table 4.3.5:** illustrated that mean value 2.14 indicate that respondents disagree/strongly disagree regarding the special skills availability in the department, mean value 2.15 indicate that the respondents disagree/strongly disagree with the adequacy of RBIA training for the staffs of the organizations to develop requisite skills and capacity of the expertise for effective implementation of RBIA. And also the mean value 2.44 indicates that the respondents strongly disagreed with the presence of motivation to retain experienced personnel. In addition to this the mean value 3.07 respondents were neither agree nor disagree regarding the presence of adequate number of experienced professionals in the audit department, mean 2.46 indicated that the respondents disagreed on the organization has taken necessary measures to support capacity in audit team.

According to Griffiths (2015) specified in his risk based audit book that the challenges to perform risk based audit through different organizations can be; Poor understanding or lack of an expertise in the control system and all aspects of organization operation, Lack of Internal Audit co-ordination its activities with the other assurance provider in the organization which would reduce duplication and create more focus and lack of training and motivating staff to deliver risk based audits also another challenge described by Griffiths on version 2.2 book. An approach on how to achieve such a co-ordinated approach is outlined, The Internal Audit certainly unable to be regarded as a champion. The internal audit has the opportunity to look right across the organization and identify opportunities and good practice. Sharing such ideas is a key to success and recognition.

4.3.6: Challenges related to top management

The other sought of this study is to establish the extent to which respondents' point of view challenges relating to top management commitment influence the implementation of RBIA in the public institutes and the researcher again described their point of view with descriptive Statistics in the table 4.3.6 below and analyzed as follows;

Table 4.3.6: Descriptive Statistics of questionnaires response related to top management

Descriptive Statistics					
questionnaires related to top management	N	Minimum	Maximum	Mean	Std. Deviation
Adequate allocation of resources for IA's.	71	1	5	2.66	1.276
There is a long term Plan to support IA.	71	1	5	2.65	1.184
Committed to support IA function.	71	1	5	2.70	1.126
Well Communication from top management.	71	1	5	2.99	1.357
Valid N (listwise)	71				

Source: survey result

From the findings in the **table 4.3.6** clearly indicated that the respondents neither agreed nor disagreed that top management allocate enough financial as well as material resource for internal audit as shown by a mean of 2.66 and a mean of 2.65 indicates some management of the organization have no long term plan to support internal audit function and mean value 2.70 indicates the top management of the organization have no commitment to support internal audit function. In addition that the mean value 2.99 indicated that the respondents neither agreed nor disagreed with internal audit have close communication with top management. Those all the above findings indicates that there is lack of top management support to internal audit in the public organization.

Additional challenges related with the human development and top management are the presence of lack of material related with RBIA, top managements turnover or over changed, senior auditors turnover ,giving priority to political commitment, Management fail to take the corrective action based on the audit findings and unrecognized the audit works are amongst the specified challenges.

According to (Griffiths,2015) identification managers have to accept responsibility for risks and understand that controls are not the responsibility of internal audit, and hence imposed by that department, but are now their own responsibility. This results in a change in the relationship between internal audit and management. The 'traditional' audit approach is to notify management that an audit will take place, probably have an initial meeting to discuss the audit and any management concerns over controls. The auditors then carry out their tests and, unless any material deficiencies are found, the next contact with management is a discussion of the issues found, with recommendations.

4.3.7 Prospects /opportunities of RBIA implementation

The nine questions was distributed to the respondents regarding opportunities obtained from RBIA implementation which considered in this study as the benefit for the organization as well as the users by the implementation of RBIA. The study sought to establish the extent to which respondents agreed or disagreement with these 9 questions below in the table that relating to prospect of RBIA implementation in Ethiopia public sectors.

Table 4.3.7 Descriptive Statistics of questionnaires response related to prospects

Descriptive Statistics					
questionnaires related to prospects of RBIA	N	Minimum	Maximum	Mean	S.D
Create a partnership with management.	71	2	5	3.39	.963
Break down the barriers.	71	1	5	3.68	.968
Focus on the future rather than the past.	71	1	5	3.75	1.130
Give Strategic benefits.	71	1	5	3.72	1.058
Ensure the best Performance.	71	1	5	3.75	1.079
Managing the unexpected	71	1	5	3.52	1.026
Eases the alignment between Resources.	71	2	5	3.72	1.003
Helps to track expenditure to reduce corruption (reducing risks of mismanagement of public resources).	71	2	5	3.94	.998
Improves control system over risky areas.	71	1	5	4.04	1.048
Valid N (list wise)	71				

Source; survey result

As outlined in the table 4.3.7 above, The findings indicated under this variable in the mean value 3.39 that the respondents are neither agreed nor dis agreed on risk based internal audit can create a partnership with management. Which indicates that the majority internal audits have no better relationship with the management and Mean value 3.68 indicate that the respondents strongly agree/agree with that risk based internal audit can break down the barriers of the organization. The mean value 3.75 indicates that the respondents strongly agreed with that the RBIA focus on the future out comes rather than the past. The mean value 3.72 indicates the respondents strongly agree with that the risk based internal audit gives strategic benefit to the organization. the mean value 3.75 shows that majority of the respondents strongly agree/agree with that of risk based internal audit ensure the best performance and also the mean value 3.52 indicate that the respondents agreed with RBIA can manage the unexpected.

The respondents strongly agreed on RBIA eases the alignment between resources to allocate (mean value 3.72). The majority of respondents agreed with that the risk based internal audit can help to track expenditure to reduce corruption or reducing risks of mismanagement of public resources (mean value 3.54). The highest mean value 4.04 indicated that the majority respondents strongly agree with that risk based internal audit can improve control system over the risky areas. Therefore the majority of respondents believed that there is an opportunities that accessed by implementing risk based internal audit in the public organization and those all identified opportunities in this section of the study shows that RBIA brings a number of opportunities to the public organizations.

The respondents mention some opportunities that enable to functional risk based audit in the public organization that the presence of an awareness about the risk based audit that plays a vital role in assessing the organization risky areas and can help to minimize the upcoming risks. The presence of committed managements in some public organization can enable to implement RBIA and the regulatory body willingness to facilitate the training ,the presence of an awareness among the auditors on the RBIA which brings many issues in to the light that cannot be addressed by financial or compliance audit.

According to the Literatures Griffiths, (2005) identified that Risk-based auditing provides the opportunity to: create a partnership with management, break down the barriers, focus on the

future rather than the past. According to Benli1& Celayir (2014) assertions about the Contributions of risk-based internal audit to the business can traditionally be grouped under four headings. It gives Strategic benefits and helps for easier adaptation to changing conditions by developing a consistent and comprehensive approach for the risk management and provides a better understanding and management of the risks. It also ensures Performance and helps increasing the risks of opportunity by reducing negative risks.

Also it provides the risks to be identified correctly and the existing management and internal control to ensure the best performance. It helps to aligning the resources and creates the ability to use resources most efficiently and creates the opportunity to get rid of unnecessary costs and eases the alignment between sources. It also helps to manage the unexpected and creates the ability to give the correct answer to unexpected demands and challenges in the face of deviations from targets and also it eases to understand the risks waiting the business and their actual effects.

4. 4. INTERVIEW ANALYSIS

4.4.1 Response Rate on Interviews

To achieve the stated specific objective the interviews were conducted to fill in gaps of information and knowledge that became apparent after the analysis and interpretation of data obtained from questionnaires and the research were prepared and forwarded interview questions to the targeted population.

The response rate on interviews provides reassurances that the information obtained from questionnaires can be likely to the entire population from which the sample was drawn. Babbie (2012) suggests that a 75% response rate on interviews is acceptable to be representative of the population. Tabulated below on Table 4.3.1 is the response rate on interviews:

Table 4.4.1 Response Rate from Interviews

Interviewees list	Scheduled Interview	Interview Done	%Response Rate
manager/Deputy manager	12	8	66.7%
MOF Inspection director	1	1	100%
Inspection directorate team leaders	3	3	100%
Total	16	12	75%

Table 4.7 shows that the response rate from interviews was 75%. The researcher targeted managers or deputy managers, MOF inspection director and inspection directorate team leaders of the selected organizations and targeted staff member (inspection directorate) for interview in order to clarify certain areas that became apparent during the questionnaires.

4.3.2 Interview Responses

- The interviewee responses on the extent of risk based audit in the public organizations that the majorities indicate there is poor risk based internal auditing approach in the organization and they believe that the internal audit give priority to financial audit than other so that they suggested that the internal audit department need regular follow up and support from regulatory body to build up their capacity and on the other hand the inspection directorate also assured that there is lack of competency in identifying the risky areas and lack of commitment among the top management to support the internal audit department and also the internal audit also have a commitment problem beyond lack of competency in preparing risk based planning and identifying and assessing risky areas. From their point of view those major problems has a negative impact on the effective implementation of the risk based audit. However the majorities agreed on some major problems few of the interviewee believed that there is risk based audit to some extent in the organization and they mention as evidence that the internal audit reviews the internal control system occasionally on some areas and recommend to the management to improve the controlling system.
- The majority of the interviewee believed on that their organization strategic plan and internal audit annual plan is not sufficient to address the organization risk profile and the respondents mention as a reason for that the internal audit have a lack of competency to cover the whole areas of the organization so that their internal audit annual plan is limited on financial or compliance based audit planning. On the other hand even though they recommended preparing their internal audit annual plan based on risky areas by regulatory body there is no yet an improvement. Since there is no an experience that documenting the risk profile in public organization the internal auditor also fail to prepare the annual audit plan based on that approach.

- According to the inspection directorate respondents identified that even though most of the public internal auditors trying to add the value to their organization their auditing approach is not enough and the organizations top management also give the same response. And almost all of the respondents ascertained that there is no organizational tenet/principle that developed by the organization to mitigate the risk and there is a lack of sound risk management framework in the organization.
- All the management responses related with the extent of management support to the IA function indicates that they believed that the management is supportive in all aspects like resources, office and recognition to their function. According to the inspection directorate response on that most of the public bodies top management trying to support the internal audit kindly and on the contrary that there are public organization managers that looking at the internal audit function as a fault finding.
- The interviewee replies about whether adequate risk management framework existed or not in the public organization to address the risk profile that all the respondents agreed on that there is no risk management framework at all in the public organization regarding to address the risk profile and the respondents indicated that it was necessary to establish a dedicated risk management framework in the public organization.
- The respondents identified that existence of many challenges can be a hinder to implement the risk based internal audit in the public organization and the researcher summarizes those identified challenges which are the lack of competency to understand the organization risks and unable to give better advice to improve the established internal control system to mitigate the risks, lack of risk based internal audit training, lack of professional manpower who has better understanding on the organization overall objective and goal, the absence of improved or risk based internal audit manual, lack of risk based internal audit training, lack of management support the internal audit functions, lack of management commitment to identify the risky areas and also lack of risk assessment practice in the public organizations are among the challenges raised by top management and the regulatory body staff.
- The respondents give their suggestion on the measures that should be taken to overcome those challenges and taking in to account the above challenges there is a need of coordination among the regulatory body and other responsible bodies and the top

management commitment to implement an effective risk based audit and it needs strengthening the internal audit department to for a great change in the risk based internal audit function.

- The interviewee also mention an additional points taken as a prospect which are the presence of weak internal control system throughout many public organizations, the presence of high risk exposure of the organization and the absence of risk management policy in the public institutes are among the prospects to implement risk based audit in the public organization, the presence of some committed management and auditors, the independency of internal audit and being accountable to MOF and the presence of accountability related with responsibility and the implement of punishment direction which would be applied on who do not carried out their duties properly and the government committed to take measure and make an accountable who participate in corruption ,embezzlement and fraud in the public organization.
- Even though there is an attempt to take a corrective action on the findings according to the given recommendation by internal audit there is also weakness to follow up its effectiveness among the internal audit and the management. The respondents suggested that it is better to take a corrective action on time in order to minimize the outcomes what occurred through not taking an action on time and it is needed a serious coordination among the responsible bodies to take a measure and perform their duty as per the action plan.
- All the interviewed respondents agreed on the benefits of the risk based auditing practices for sound risk management framework of the organization and according to the respondents belief it helps to minimize the surprising risks like corruption, embezzlement, misappropriate use of resources and also it minimizes the cost.
- Finally the respondents interviewee indicates that some measures should have been taken to implement effective risk based internal audit in the public organization and they mention as a solution some points like the essentiality of collaborated work between the regulatory bodies and the responsible organization for the effective implementation of RBIA in the public institutes, facilitating the risk based internal audit training, the preparations of risk based internal audit manuals and related materials to the internal

audit, identifying the organization risky areas regularly and need to design organizational risk management policy in accordance .

4.5 Review of Secondary Data

The absence of risk based internal audit annual plan, the presence of risk assessment and risk based audit report and an integrated RM policy in the federal public institutes as well as the OFAG three years(2006/2007,2007/2008,2008/2009) annual report was verified by the researcher as a secondary data from the ministry of finance (MOF) inspection directorate. The researcher observed that the federal public institutes did not prepare their annual audit report based on risk based approach and also there is no risk assessment document , their quarterly report also indicate that their more function is based on monthly financial transaction out puts and there is a lack of covering the whole organization departments tasks and the absence of documented and approved risk management procedure to effectively identify, assess, manage and mitigate risks to its operations as obligated by The Federal Government Internal Control System Standards Direction no.8/2003 part 4 article 14 sub article1&2;.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The main objective of this study was to examine the Challenges and prospect of risk based internal audit in Ethiopia public institutes based on the case of selected federal organizations and identify the public institutes internal audit challenges that faced to implement risk based audit and the prospects related with the function. The study examined how different variables challenge the effective implementation of RBIA in public sectors. The purpose of this chapter is to summarize the findings, come up with conclusions of the study and finally to give recommendation.

5.2. Summary of Finding

5.2.1 The extent of risk based internal audit function

Under this variable the findings indicated that majority respondents neither agreed nor disagreed with the questions under the extent of risk based internal audit function, almost all mean responses are to some extent are the same between mean value 2.31 and 2.49 it implies that majority of respondents indicated that the extent of risk based internal audit in the public organization is an efficient to address the organization risky areas and there is a lack of risk based audit planning, the absence of risk assessment practice and the internal audit incompetent to risk management process and mean value 3.92 indicates that the majority of respondents believed that there is a clear and well understood objective and goal in the organization which indicates that there is an understanding or can easily identify the hindrances what makes the objectives and goal not to be achieved in the organization. The interviewee response also indicates that the presence of lack of committed management, incompetent auditor, lack of risk based training and lack of professional auditor among the reason which makes the risk based internal audit function inefficient in the public organization. The respondents assumed that even though financial audit is the prioritized function to the public organization the internal audit is more depended on it and cannot cover the risky area which makes the extent of risk based internal audit inefficient.

5.2.2 Tenets of a Risk Management Framework

The findings indicate that majority of respondents are neither agreed nor disagreed on the presence of risk management tenet and their response rests between the mean value 2.65 and 3.13 which indicate that there is lack of good culture and attitudes towards controls and risks in their organization and there is no belief that whether all stakeholders taking responsibility or not in the organization and there is no a devoted risk management unit in the public institutes and some respondents indicated in mean value 2.44 that the respondents strongly disagreed on the presence of integrated risk management policy in the public organizations. The interviewee also ascertain that there is no organizational tenet/principle that developed by the organization to mitigate the risk and there is a lack of sound risk management framework in the public organization.

5.2.3 Role of IA in Risk Management

The findings clearly shows all of the mean value shows less than 3.00 and more than 2.5 that indicate the majority of the respondents are neutral or there is a belief that internal audit has weakness in playing role in risk management process. The mean 2.59 respondents indicate that internal auditor has poor advising role to the manager at all levels on RM processes and the mean value 2.92 indicated that the respondents believed in the presence of the weakness to review regularly risks to assets and resources. The mean 3.07 indicate that the majority of the respondents believed that internal audit identifies risk management weaknesses in the organization and recommends about the improvement. However the respondents agree with they have role in identifying risk management weaknesses and recommends to be improved that the mean 2.82 indicate that internal audit did not regularly runs risk management consultation in the organization. And the interviewee also ascertained that there is a poor internal audit role in risk management process.

5.2.4 Adequacy of Risk Management Structures in the public organization;

Under this variable the findings indicated by the mean value 2.11 that the majority of the respondents are strongly disagree with there is an elaborate risk management structure in the organization and mean value 2.07 indicates that disagreed in risk management framework has been developed to address the areas of heightened risk. The highest mean 3.79 indicate that

majority of the respondents strongly agreed on the necessity to adapt contemporary risk management processes in the organization which adequately address the organization's risk. It indicates that there is no risk management structure in the organization and majority of the respondents believed that it is needed to adapt adequate risk management process in the organization. The interviewee also ascertains that there is a lack of adequate risk management structure in the public institutes.

5.2.5 Challenges related with human development

The findings as shown in the mean value 2.14 indicate that respondents strongly disagreed regarding the special skills availability in the department, mean value 2.15 indicate that the respondents strongly disagree with the adequacy of RBIA training for the staffs of the organizations to develop requisite skills and capacity of the expertise for effective implementation of RBIA. And also the mean value 2.44 indicates that the respondents disagreed with the presence of motivation to retain experienced personnel. In addition to this the mean value 3.07 respondents were neither agree nor disagree regarding the presence of adequate number of experienced professionals in the audit department which indicates there is a lack of specialized auditors in the department, mean 2.46 indicated that the respondents disagreed on the organization has taken necessary measures to support capacity in audit team.

5.2.6: Challenges related to top management

Under this variable the findings clearly indicates that the respondents neither agreed nor disagreed that top management allocate enough financial as well as material resource for internal audit as shown by a mean of 2.66 and a mean of 2.65 indicates some management of the organization have no long term plan to support internal audit function and mean value 2.70 indicates the top management of the organization have no commitment to support internal audit function. In addition that the mean value 2.99 indicated that the respondents neither agreed nor disagreed with internal audit have close communication with top management. Those all the above findings indicates that there is lack of top management support to internal audit in the public organization.

Additional findings related with the human development and top management challenges are the presence of lack of material related with RBIA, top managements turnover or over changed, senior auditors turnover ,giving priority to political commitment, Management fail to take the

corrective action based on the audit findings and unrecognized the audit works are amongst the specified challenges.

5.2.7 Prospects /opportunities of RBIA implementation

The findings indicated under this variable in the mean value 3.39 that the respondents are neither agreed nor dis agreed on risk based internal audit can create a partnership with management. Which indicates that the majority internal audits have no better relationship with the management and Mean value 3.68 indicate that the respondents strongly agree/agree with that risk based internal audit can break down the barriers of the organization. The mean value 3.75 indicates that the respondents strongly agreed with that the RBIA focus on the future out comes rather than the past. The mean value 3.72 indicates the respondents strongly agree with that the risk based internal audit gives strategic benefit to the organization. the mean value 3.75 shows that majority of the respondents strongly agree/agree with that of risk based internal audit ensure the best performance and also the mean value 3.52 indicate that the respondents agreed with RBIA can manage the unexpected.

The respondents strongly agreed on RBIA eases the alignment between resources to allocate (mean value 3.72). The majority of respondents agreed with that the risk based internal audit can help to track expenditure to reduce corruption or reducing risks of mismanagement of public resources (mean value 3.54). The highest mean value 4.04 indicated that the majority respondents strongly agree with that risk based internal audit can improve control system over the risky areas. Therefore the majority of respondents believed that there is an opportunities that accessed by implementing risk based internal audit in the public organization and those all identified opportunities in this section of the study shows that RBIA brings a number of opportunities to the public organizations.

The respondents mention some opportunities that enable to functional risk based audit in the public organization that the presence of an awareness about the risk based audit that plays a vital role in assessing the organization risky areas and can help to minimize the upcoming risks. The presence of committed managements in some public organization can enable to implement RBIA and the regulatory body willingness to facilitate the training, the presence of an awareness among the auditors on the RBIA which brings many issues in to the light that cannot be addressed by financial or compliance audit.

The interviewee also mention an additional points as an opportunities to implement risk based internal audit that the presence of weak internal control throughout the public organization, high risk exposure of the organization and the presence of weak risk management capacity conducted there is some prospects to implement risk based audit in the organization the presence of some committed management and auditors, the independency of internal audit and being accountable to MOF and the presence of accountability related with responsibility and the implement of punishment direction which would be applied on who do not carried out their duties properly and the government committed to take measure and make an accountable who participate in corruption ,embezzlement and fraud in the public organization.

5.3The secondary data findings

The secondary data also ascertained so many findings which are grasped in the primary data and it indicates that there is a lack of risk based internal audit annual plan in the public organizations, the absence of risk assessment practice and risk based audit report and the absence of an integrated RM policy in the public institutes. The office of Federal Auditor General (OFAG) three years (2006/2007,2007/2008,2008/2009) annual audit report, the internal audit annual audit plan ,quarterly internal audit report, different documents related with risk assessment and the approved risk management procedure used as a reference to verify the extent of RBIA in the federal public organizations .

5.2. Conclusion

The study established that identify challenges and prospects of RBIA in Ethiopia public institutes. It is clear from the findings that;

- ❖ The study concludes that, the extent of risk based internal audit in the public institute is ineffective and the internal audit function is more dependent on traditional/compliance rather than risk based approach (future focused /preventive approach).
- ❖ In most public organizations there is a lack of good culture and attitude towards the organization risk control system and there is no an established integrated risk management policy in the organizations.
- ❖ There is a poor of the internal audit role in identifying risk management weakness and give better recommendation to management as well as there is a lack of regular reviews of risks to assets and resources in the public organization.
- ❖ The public institutes have not a tendency that registering and documenting the organization risk profile and also there is no an existed risk management structure which adequately address the organization's risk profile.
- ❖ Some challenges are existed in the public institutes related with human development and top management support to implement risk based audit in the public bodies which are lack of skills available in the public organization, lack of risk based internal audit training, motivation to maintain the internal audit personnel, lack of experienced professionals, the presence of inadequate organizational support to capacitate the internal audit team, the top managements turnover or over changed and senior auditors turnover, giving priority to political commitment and also there are a challenges related with the top management that inadequate allocation of resources for IA's, lack of a long term Plan to support IA, management Commitment to support IA function including taking corrective action based on their recommendation and Well Communication from top management.
- ❖ Risk Based Internal Audit has good prospect in Ethiopia in addressing issues which are beyond the reach of financial and compliance audit and for utilization of the countries scarce resources.

5.3 Recommendation

The researcher recommends that:

- ✓ IA should have conduct their auditing function in risk based approach (preventive approach) than traditional /compliance audit approach (focusing on past performance) which cannot prevent early damage , misappropriate usage , mismanagement of public resources .
- ✓ The regulatory body /MOF inspection directorate/ should have also enforce the internal audit team to be focused and to conduct their function in risk based perspective and consume the limited internal audit resources on highly risky areas and reorient the IA to conduct their function required by the Federal government internal audit direction No7/2003.
- ✓ The public organization should formulate an integrated risk management policy and approved risk management guiding principle to effectively identify, assess, manage and mitigate risks to its operations as required by the Federal Government Internal Control System Standards Direction no.8/2003 part 4 article 14 sub article1&2.
- ✓ The public organizations top management should be committed to take the corrective action on the internal control system weaknesses based on the given recommendation by IA before the organization exposed to the external audit and being accountable to the government by their negligence.
- ✓ The IA should get on a deliberate training program to acquire risk management skills and attitudes in order to be able to discharge of this mandate. This may also entail establishing an audit team specifically trained in risk management which would audit the risk management structures and processes in the institute.
- ✓ The public organization should establish risk management structures with clearly defined responsibilities for different departments, internal audit, department heads and every member in the institutes.
- ✓ In order to address the challenges of RBIA the researcher recommends that the government should have coordinated all stakeholders and strengthens the regulatory body capacity in order to execute the government rules and regulations.
- ✓ The federal government need to establish strong strategy and legitimate framework to for RBIA effectiveness throughout the public organizations and to combat the challenges it

should focused on capacity building to its personnel in the IA team and ensure continuity of the risk based internal audit function.

- ✓ Finally the researcher recommended that RBIA implementation should be re check according to the existed direction and the government policy and also the top management, the internal audit team and the regulatory body should be committed to consume the existing prospects/opportunities to implement effective RBIA in the public organization to prevent misappropriate use and mismanagement of the public resources.

5.4 SUGGESTION FOR FURTHER RESEARCH

Since the study sought to establish challenges of RBIA implementation in Ethiopia public sector, it was established that from literature review that there are scanty studies available on challenges of RBIA implementation specifically in a selected Federal government public organization. Additionally RBIA is still a relatively new auditing approach in Ethiopia public sectors, and not studies have dealt with the issue of RBIA in the countries the reason why the researcher suggest for similar study to be undertaken in other public organizations for generalization of the findings of this study.

Further research therefore, should be done on the impact of RBIA on the public financial management of Ethiopian public sectors; the impact of RBIA on economic development, the effect of RBIA implementation on corruption.

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Questionnaire to be filled by internal audit.

General Guidelines

The purpose of this questionnaire is to collect information about the challenges and prospect of risk based internal audit in a selected Federal Public Sector. The information you provide will be valuable for the successes of my study.

Where the question requires selection, or ranking please tick (✓) your pertinent answer inside the square. In parts where written responses are required, please provide your written response briefly in the blank space provided. If you have additional idea, please use the back side.

Thus, please be confident that the information gathered from you shall be used only for academic purpose and will strictly be kept confidential.

For more information, you may make contact with Roman Argaw by the following Address:

Mobile +251-920225673 or +251- 909602007 Email: argawroman@gmail.com

Thank you in advance for your time & cooperation!

Roman Argaw.

Part I The personal profiles

General Instruction: Please indicate your choice by putting “√” mark in the box.

1. Your sex: Male Female
2. Age: Below 25 25-30 31-35 36-40 41-45 46-50 Above 50
3. Your field of study: a. accounting b. Management c. Economics d. Other
Please specify -----
4. Academic qualification:
a . Diploma b. First Degree c. MA/MSc d. PhD e. Other(Please specify) _____
5. Please specify the organization you are currently working-----
6. Your job Position in your department-----
7. Years of experience you have in your current Organizations.
a. Less than 1 Year b. 1 - 3 year’s 4 - 6 years

d.7 - 9 years e.10 years or more

Part II. The questionnaire items (questions)

The Questionnaire is prepared in Liker-scale form with five (5) point scales. I ask you to tick (√) the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = strongly disagree

S. no	Section 1: The extent of risk based internal audit function	The Scales				
		5	4	3	2	1
1.	The internal audit annual plan is prepared according to risk based approach.					
2.	In case of risk-based audit planning the risk factors taken into account in your organization.					
3.	The risk assessment activity have implemented in all the functions and processes of the organization.					
4.	In your organization the risk assessment is carried out by internal auditors in co-operation with the line management.					
5.	The internal audit is functioning in risk based approach rather than traditional auditing approach/compliance.					
6.	There is a clear and well understood organizational objectives and goal.					
	Section 2: Tenets/principles/ of a Risk Management Framework					
7.	There is a good Culture and attitudes towards controls and risks.					
8.	There is an integrated risk management policy in the organization.					
9.	The Organization risk management is an all stakeholders' responsibility.					
10.	There is a devoted risk management unit in the organization.					
	Section 3: Role of IA in Risk Management					
11.	Internal auditor advice the manager at all levels on RM processes.					
12.	Internal audit regularly reviews risks to assets and resources.					
13.	Internal audit identifies risk management weaknesses in the organization risk management and recommends improvements.					

14.	Internal audit regularly runs risk management consultation in the organization.					
Section 4: Adequacy of RM Structures to Address the organization's risk Profile						
15.	An elaborate risk management structure exist which adequately address the organization's risk profile.					
16.	A risk management framework has been developed to address areas of heightened risk.					
17.	It is necessary to adapt contemporary risk management processes in the organization.					
Section 5:challenges of implementing risk based internal audit						
Challenges with Human development						
18.	Special skills available in the department					
19.	Staff training (regular training) on RBIA.					
20.	Motivation to maintain IA personnel.					
21.	Number of experienced professionals.					
22.	Organization has taken necessary measures to support capacity in audit team.					
Challenges related with Top management						
23.	Adequate allocation of resources for IA's.					
24.	There is a long term Plan to support IA.					
25.	Committed to support IA function.					
26.	Well Communication from top management.					
Section6: Prospects of RBIA						
27.	Create a partnership with management.					
28.	Break down the barriers.					
29.	Focus on the future rather than the past.					

30.	Give Strategic benefits.					
31.	Ensure the best Performance.					
32.	Managing the unexpected.					
33.	Eases the alignment between Resources.					
34.	Helps to track expenditure to reduce corruption (reducing risks of mismanagement of public resources).					
35.	Improves control system over risky areas.					

III. Additional information on

- **The extent of risk based internal audit function in your organization**-----

- **The tenets/principles/ of a Risk Management Framework in your organization** -----

-----.
- **The role of IA in Risk Management in your organization** -----

-----.
- **The adequacy of RM Structures to Address the organization’s risk Profile in your organization** -----

-----.
- **Any other Challenges to implement RBIA in your organization,** -----

--.
- **What are the prospects/Opportunities in implementing RBIA in your organization,** --

Thank you very much for your time!!

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Interview prepared for organization manager or deputy manager and inspection directorate director and team leaders in inspection directorate /MOF/.

General Guidelines

These interview questions are prepared for selected management member of public sectors and Ministry of Finance (MOF) inspection directorate director. Dear respondents, the information you provide is valuable for the study. Please be confident that the information you provide here is used only for academic purpose and will strictly be kept confidential.

1. To what extent the internal audit functional in risk based auditing approach in your organization?
2. Is the organization strategic plan and internal audit annual plan sufficient to address the organization risk profile?
3. Is the internal auditing approach efficiently adding value to the organization to meet the established objectives and goal?
4. Is there a tenet/principle for a sound risk management framework in your organization?
5. To what extent the management support the IA function?
6. To what extent is the risk management framework adequate to address the organization risk profile?
7. What are the challenges to implement RBIA in your organization?
8. What measures should be taken to overcome those challenges?
9. What are the prospects /opportunities of implementing RBIA in your organization?
10. Does the organization taking corrective actions based on the audit result to perform their duty as per the action plan?
11. What are the benefits of the risk based auditing practices for sound risk management framework of the organization?
12. What measures, you think, should be taken to implement effective risk based internal audit in your organization?

Thank you very much!