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**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**AN ASSESSMENT OF INTERNAL AUDITING PRACTICES AND ITS CHALLENGES IN  
THE CASE OF BOLE SUB CITY ADMINISTRATION**

**By:-**

**Aklilu Kinfu**

**(GSE/1693/16)**

**January, 2026  
Addis Abeba**

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**A Thesis Submitted to**

**The Department of Accounting and Finance**

**A Thesis Presented in Partial Fulfillment of the Requirement for the Degree of  
Master of Science in Accounting and Finance**

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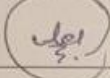
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## Declaration

I, **Aklilu Kinfe**, I.D. Number **GSE/1693/16** declare that this project paper is my original work and has not been presented for any other University, and that all source of materials used for the project have been duly acknowledged.

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## Certificate

I certify that this thesis work entitled " Internal Auditing Roles and its Challenges in the Case of Bole Sub City Administration ", in partial fulfillment of the requirements for the award of the Degree of Master of Science in Accounting and Finance has been undertaken independently by Aklilu Kinfe under my guidance and supervision and that it has not previously formed the basis for the award of any degree, in any other university/institutions.

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## **Abstract**

*Internal auditing has a vital role to assist members of the organization effective discharge of their responsibilities. The purpose of this research is to examine internal audit practices and to find out the related challenges in Bole Sub-city Administration Internal Audit Sub process. For describing a given problem both open-ended and close-ended questionnaires were distributed for all internal audit process owners, senior auditors and finance core process owners of the sub city and districts. Also, unstructured interview is undertaken with sub city's top manager. The collected data analyzed in quantitative and qualitative techniques. The main findings drawn from this; lack of manpower, less emphasis for training, inadequate internal control evaluation, lack of preparation of the plan based on internal audit professional standards, lack of fully independence, lack of successful audit results. From this the researchers concluded that there is gap in the internal audit practice of the sub city. This study recommends that the sub city required to fulfill the required manpower to meet its objectives as desired; internal audit sub process should report and comment on the effectiveness of internal control system and suggest ways and means to improve these systems; internal audit should prepare its strategic, annual and individual plan based on IIA standards, top management and internal audit work together in order to improve independence; management should use the outcome of internal audit to make the sub city more productive.*

***Key words – internal auditing, internal audit professional standards, Independence,***

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## Acronyms

<b>BSCA</b>	Bole Sub City Administration
<b>BOFED</b>	Bureau of Finance and Economic Development
<b>MOFED</b>	Ministry of Finance and Economic Development
<b>AACGFAP</b>	Addis Abeba City Government Finance Administration Proclamation
<b>AACGAR</b>	Addis Abeba City Government Audit Regulation
<b>IIA</b>	Institute of internal auditors
<b>PFM</b>	Public Financial Management
<b>CIA</b>	Certified Internal Auditor
<b>HIA</b>	Head of internal auditor
<b>IAF</b>	Internal Audit Function
<b>IAPM</b>	Internal Audit Procedural Manual
<b>INIAF</b>	Implementing New Internal Audit Function

# Chapter - One

## Introduction

### 1.1 Background of the Study

Institute of internal auditor (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls. When an organization establishes its planning and then proceeds to implement its plans in terms of operations, it must do something to monitor the operations to ensure the achievement of its established objectives. (Moeller, 2005)

The institute of internal auditors (IIA) clearly states that auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector internal audit function is an element of a strong public sector governance foundation. ([www.globaliia.org/standards-guidance](http://www.globaliia.org/standards-guidance))

Addis Ababa city government has taken the initiative to improve and strengthen the internal auditing practice both in public bodies, to this effect not only did city government provide for the necessary legislative frame work by the financial administration proclamation of the city government (proclamation 16/2002) and city government of Addis Ababa internal audit regulation (Regulation No.17/1997) as well as directives issued by BOFED but also taking measures to recognize and strengthen internal auditing in these organizations.

Bole sub city is one of the eleven sub-cities found in Addis Ababa with a population number of 778,104, of this 414,729 (53.30%) are female and 363,375 (46.70%) are male besides it is 4<sup>th</sup> in population number. (Bole sub-city research plan and budget core process, study on the socio-economy study of SME, April 2021).

The sub city has 1 (one) expert auditor, 6 (six) senior auditors and 3 (three) junior auditors and internal audit sub processes which are accountable to top management in the head office and there are 11

districts, and in each district there is 2 (two) internal audit sub process. Thus, assessing the role and challenges of the internal audits is critical in order to ensure whether it renders all possible assistances for the maximum organizational goals. (Bole Sub City Internal Audit Department, Apr 2025).

Bole Sub City Internal Audit sub process consults the management and all other processes with financial and material related issues and also ensures the proper utilization of the material and financial resources of the office of the sub city council through auditing fraudulent finances and what has been performed by the finance, purchasing and property supporting process. It also plays its part through making the limited resources of the offices of the sub city be utilized for the planned purposes effectively.

Therefore, this paper makes an attempt to find out problems related to internal auditing and its role in government unit particularly Bole Sub City Administration and its districts.

## **1.2 Statement of the Problem**

Internal auditing has emerged as an exciting discipline and an excellent training ground for future management positions. The emphasis on adding value and improving operations squarely aligns internal auditing with stockholders, the board of Directors and management. The scope of internal auditing is broad and includes the evaluation of an organizations approach to identify and manage risk, to develop and implement effective controls including those designed to ensure efficient operations and to ensure that the governance process is working effectively (Rittenberg and Schwinger, 2005).

As Supplemental Guidance of Institute of Internal Auditing (IIA), an effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable. Auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption. Therefore, it is crucial that audit activities are configured appropriately and have a broad mandate to achieve these objectives.

IIA also states that internal audit can play an important assurance role in an organization's governance processes, particularly in the area of risk management and control. In many organizations, the expectations placed upon internal audit have increased and the function is being relied on to make a significant contribution.

Independence is the cornerstone of the auditing profession. The internal audit function is generally considered independent when it can carry out its work freely and objectively. It means that the auditor is neutral about the entity and therefore objective. The public can place faith in the audit function because an auditor is impartial and recognizes an obligation for fairness. (Boynton and Johnson, 2006)

Service to the organization through assistance to management at all levels is a major goal for internal auditors. This justifies the efforts of internal audit to see its job through the eyes of management and to render all possible assistance for maximum management goal achievement. The problems of management are complex and continually changing in light of both internal and external environmental factors. This means that management increasingly needs the assistance of internal auditors and, in many cases will welcome it when the ability and credibility of the internal audit function is established. It is a continuing challenge to internal auditors to render assistance to management through effective and significant audit recommendations (Moeller, 2005).

Internal auditors are employed by the individual companies, partnerships, government agencies and other organizations. In major corporations internal audit staffs may be very large and the director of internal auditing is usually a major job title within the organization. Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls. The person who undertakes internal audit is internal auditor. The special role of internal audit is to help measure and evaluating those other controls. Thus internal auditor must understand both their own role as a control function and the nature and scope of other type of controls in the organization. Shortly, internal auditing is the independent appraisal of effectiveness of internal control. (Champers, 1996)

To help ensure the objectivity and independence of internal auditors, the IIA suggests that the director of internal auditing report directly to either the board of directors or have free access to the board. If the internal auditors report to the chief financial officer or similar financial officer within the organization, a conflict interest may arise. (Messier, 1997)

Also, some recent empirical studies showed that the absence of well-structured and properly planned internal audit practices in an organization cause difficulty in achieving its intended organizational objectives. And also lack of the practice of prior risk analysis and besides this impairment of independence are the main problems seen in most public sector organizations (Abebe and Tamene,

2011). Regarding this, the researcher tried to examine the internal auditing roles and its challenges of the Bole Sub City Administration and forward solutions that may contribute to enhance the current situation by addressing the following basic research questions:-

- What are the main functions of internal audits in Bole Sub City Administration?
- What are the internal auditors' practices in Bole Sub City Administration follow Internal Audit Professional Standards?
- To what extent the independence of internal auditors in Bole Sub City Administration to discharge their responsibilities?
- What are this major challenges influence internal auditors while performing their activities?

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

#### **1.3.1 General Objectives:**

The general objective of the study is to assess of internal auditing practices and its challenges of Bole Sub City Administration and its districts.

#### **1.3.2 Specific Objectives:**

- ✓ To examine the main functions of internal audit in Bole Sub City Administration.
- ✓ To assess whether internal audit practice in Bole Sub City Administration follow Internal audit Professional Standards.
- ✓ To evaluate the extent of Independence on the performance of internal auditors at Bole Sub City Administration.
- ✓ To assess the major challenges faced by the internal auditors.

### **1.4 Significance of the Study**

The study has many advantages for all practitioners and academicians by providing useful information about internal auditing and its challenges in public sector organizations. The study also used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the role of internal audit in Ethiopian Public organizations. And it will enable the governing body, specifically the managements, and the higher responsible body, to be aware of the importance use of internal audit and gives insight how they use the internal audit service most efficiently.

### **1.5 Scope of the Study**

The scope of the study was limited emphasize only to assess of internal auditing practices as an assistant of the management and its challenges at Bole Sub City Administration and its districts.

### **1.6 Organization of the Study**

This study is organized into five chapters. Chapter one present the introduction of study which includes background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, and organization of the study. Chapter two present the literature review regarding the research area of internal auditing and therefore sets out the theoretical and empirical reviews for the research. Chapter three sections comprise research approach, population, sampling technique, source of data, data collection and analysis methods. The researches results are presented in chapter Four. The final Fifth chapter concludes the paper, summarizes the findings and recommended possible suggestions.

## **Chapter Two**

### **Literature Review**

#### **2.1 Conceptual and Theoretical literature review**

##### **2.1.1 Definition of Internal Auditing**

The term internal defines work carried on within the organization by its own employees. Internal auditing work is distinguished from such audit related work carried on by outside public accountants or other parties who are not directly a part of an organization. (Moeller, 2005)

There is no sole definition of internal auditing. But, the definition given by Institute of Internal Auditing (IIA) is taken into account. According to IIA, Internal auditing is defined as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls. (Moeller, 2005) The person who undertakes internal audit is internal auditor. The special role of internal audit is to help measure and evaluating those other controls. Thus internal auditor must understand both their own role as a control function and the nature and scope of other type of controls in the organization. Shortly, internal auditing is the independent appraisal of effectiveness of internal control. (Champers, 1996)

Internal auditors are employees of the organization whose activities they appraise, however measure can be taken to give these auditors assertion degree of independence. To produce accurate and timely financial records and to prevent fraud it was believed that timely employees should involve initially internal auditing targeted particularly on the accounting and financial matters. Gradually the role of internal auditors expanded to encompass potential policies and procedures of the organization rather than focusing on the financial matter. Step by step the role of internal auditor become complex following the complexity of the organization.

The internal auditors were supposed to determine whether operating units in the organizations follow correct accounting and financial policies and whether such policies provide sound operations. (Internal audit manual, MOFED, 2005)

### **2.1.2 Historical Development of Internal Auditing**

Understanding the history of internal auditing is important because this old image still persists, to some extent for today's modern internal auditors. This is so even though the character of the internal auditing function is now very different. (Moeller, 2005)

The early concept of auditing, referred to can only be construed as internal auditing, because the development of external audit in its modern sense is quite a later vintage associated with the development of shareholding and joint-stock companies. Historical evidences reveal that ancient kings and rich noblemen appointed some of their trusted officials to exercise checks on the people whom they put in charge of collecting and safekeeping revenues from their estates and to report to them in the event of any irregularities.

This practice can be said to have the nature of internal auditing in the sense that those who were appointed to check on the regularity of revenue collection and the safeguarding of the proceeds were people from the same organization and in the service of the institution as people in charge of the collection and recording functions. It is evident therefore, that internal auditing was in practice much earlier than external audit. In spite of its earlier existence, however, internal auditing did not emerge as a recognized field of professional practice until the 1940s when two factors influenced its development as a distinguished profession.

In the first place, the rapid development and sophistication of business, government services and the development of statutory audit brought about strengthened demand on management and board to ensure that assets are properly safeguarded, results are consistent with established objectives, and program and operational goals are achieved as planned. In order to ensure this, management needed the services of internal auditors who could provide with assurance services to keep their houses in order before the coming of statutory auditors (Internal Audit Manual, 2005, MOFED).

The second factor, which became a potent force in the development of the internal auditing profession, is the establishment of the IIA in 1941 in New York. Although membership grew very fast (from 24 in 1941 to 1018 in 1947), the first official pronouncement of the Institute, the Statement of Responsibilities of Internal Auditing was issued in 1947. The purpose was to establish a set of guidelines that defined the proper role and responsibilities of the internal auditing function within an organization at the time. In this first statement of responsibilities the authors seem predominantly concerned with accounting and

financial controls. After 1947 the Statements of Responsibilities have been revised six times up to the current period. These revisions consisted of those of 1957 which expanded the role, while that of 1971 gave equal concern to every significant aspect of an organization's operations, including efficiency, effectiveness, and compliance. The next revisions were effected in 1976, 1981, 1990 and 1999 in response to internal auditing operating environment and paradigm shifts in corporate businesses management and attendant emphasis on the quality and effectiveness of internal controls as well as the issuance of new protective legislating by governments and other regulatory bodies.

Internal auditing continues to develop and emerge both in the public and private sectors; with this development came new procedures and practices. The challenges in the field of internal auditing reflect the emergent challenges in the concept and techniques of business management and government service delivery. New approach in global competition, down-sizing, business process re-engineering, security, advances in technology have created the challenges of developing new and more relevant approaches in the concept and practice of internal auditing.

Over the last 60 years, in developed countries, internal auditing has undergone profound organizational and technical changes. Up to the first half of the 20th century the practice of internal auditing consisted of ascertaining compliances with accounting and operational procedures, verification of accuracy of calculation, protection of assets from theft and fraud. The methods involved 100 percent checking of transactions by means of vouching.

In today's constructive approach, the modern internal auditor seeks to add value by laying emphasis on improving procedures and policies through reduced costs, increased bottom line and better services to users. As a result, senior management and the board increased their reliance on the internal audit to improve the organization's operation and to systematically evaluate the management or organizational risks, controls and governance processes which are essential factors in the achievement of objectives. It is quite easy to see how much internal auditing has changed to adapt itself to the needs of modern day business environment (Internal Audit Manual, 2005, MOFED).

### **2.1.3 Internal Auditing In Ethiopia**

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s just about the time when internal audit was evolving as an organized profession in the United States. Internal audit in Ethiopia, had its early legislative root in the Constitution of 1923 which

authorized the establishment of an “Audit Commission” (Articles 34); and the Audit Commission itself was established much later by Proclamation 69/1944 to audit the accounts of the Ministry of Finance.

The same Proclamation mandated the then Ministry of Finance to audit other budgetary institutions as a measure of internal control over the financial operations of the budgetary institutions. It appears that this early practice of internal auditing as per Proclamation no. 69/1944 was, in fact, to be the root of what the Inspection Department of the Ministry of Finance and Economic Development (MoFED) continued to perform to this day, until the recent reorganization.

The latter part of the 1940s witnessed the establishment of internal audit functions in key public sector institutions such as the national defense, education, road construction, and other non-budgetary public sectors, which included the Ethiopian Airlines, Telecommunication and the financial sector consisting of the modern layer of the Ethiopian economy. These institutions in one way or the other had external links or financing operations, which created awareness of the need for internal controls to sectarian appropriate financial management and to safeguard organizational assets.

The period of the early 1950s, marked the introduction of a budgetary system in government. The commencement of an annual public budget in 1955 for the first time in the history of the country ushered in a system of financial administration based on the annual budget with all its attendant requirements for strengthened internal control in the budgetary agencies. This entailed the formation of internal audit as an integral part of the budgetary internal control system (Internal Audit Manual, MOFED).

## **2.2 Function of Internal Auditing**

Very large organizations have found need for internal audit in addition to external audit. Internal auditors are employees of the organization and work exclusively for the organization. Their functions partly overlap those of the external auditors and in part are quite different.

Internal audit can play an important assurance role in an organization's governance processes, particularly in the area of risk management and control. In many organizations, the expectations placed upon internal audit have increased and the function is being relied on to make a significant contribution. (www.icaew.co-UK, March, 2004)

### **2.2.1 An appraisal function**

The internal auditor's job is to appraise the activity of others, not to perform a specific part of data processing. For example, a person who spends his time checking employee expense claims is not performing an internal audit function. But an employee who spends time reviewing the system of checking employee expense claims may well be performing an internal audit function. (Basu, 2006)

### **2.2.2 As a service to the organization**

The services include the provision of assurance and advice as well as co sourced services with external service providers. The role is to provide independent and objective assessments to assist the organization in accomplishing its objectives and improve operations. (www.globalia.org, April, 2012)

The management requires that the auditor ensures the following:

- That its policies are fulfilled
- That the information it requires to manage effectively is reliable and complete; this information is not only that which is provided by the accounting system.
- That the organization's assets are safeguarded.
- That the internal control system is well designed.
- That the internal control system works in practice.

The internal auditor's activities will be directed to ensure that these requirements are met. The internal auditor can be seen as the eye of the board within the enterprise.

### **2.2.3 Other Duties**

- Being concerned with the implementation of social responsibility policies adopted by top management
- Being concerned with the response of the internal control system to errors and required changes to prevent errors.
- Being concerned with the response of internal control system to external stimuli. The internal control system must continually upgrade itself to deal with change.
- Acting as a training officer in internal control matters.
- Auditing the information given to management particularly interim accounts and management accounting reports.
- Taking a share of external auditor's responsibility in relation to the figures in the annual accounts.

- Being concerned with compliance with external regulations such as those on the environment, financial services, related parties etc. (Basu,2006)

### **2.3 Internal audit objectives**

The objective of an audit is to enable the auditor to form and express an opinion the information under audit (Gupta and Arora, 1996). Some of the main objectives are;

- Evaluation of the performance of the various functional units within the organization, especially in terms of operating efficiency and the implementation of controls designed to achieve optimum results.
- Ascertaining compliance with the organization's operating policies and procedures, and with the various controls that have been instituted.
- Verification of the reliability and integrity of the operating and financial information on which management and others must rely in performing their responsibilities. The existence of the organizations resources for which accountability is maintained should also be verified stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear- cut indication of the character of the auditor's work, and the degree of responsibility the auditor is taking. (Stettler,1985)

### **2.4 Types of Internal Audit**

Different types of audits can be performed by the internal auditors. Some of these are; financial audit for public financial statements, operational audit, compliance audit, fraud investigation, risk assessment and others.

#### **2.4.1 Financial Statement Audit**

An audit of financial statements is conducted to determine whether the overall financial statements (the quantifiable information being verified) are stated in accordance with specified criteria. Normally, the criteria are generally accepted accounting principles, although it is also common to conduct audits of financial statements prepared using cash basis or some other basis of accounting appropriate for the organization. The financial statements most often included are the statement of financial position, income statement, and statement of cash flows, including accompanying footnotes. (Arens and Loebbecke, 2000)

### **2.4.2 Operational audit**

Operational audits or reviews exist in many forms. The frame work can be applied to each. One version focuses on the internal controls in each function or unit such as finance, personnel, production and marketing. While another might deals with internal management practices and controls by dividing the audit into management and operations (Brathwaite, 1988).

An operational audit involves obtaining and evaluating evidence about the efficiency and effectiveness of an entity's operating activities in relation to specified objectives. This type of audit is sometimes referred to as a performance audit or management audit. The criteria or objectives against which efficiency and effectiveness are measured may be specified, for example, by management or enabling legislation.(Boynton&Johnson,2006)

### **2.4.3 Compliance Audit**

The purpose of a compliance audit is to determine whether the organization is following specific procedures, rules, and regulations set by the government and higher authority. Picket and Pickett say that all organizations have to comply with an abundance of laws, regulations and internal policies and procedures. As such, there will need to be in place a compliance system to ensure that things are done properly and that the organization is not exposed to unnecessary risks (Pickett & Pickett, 2005).

A compliance audit involves obtaining and evaluating evidence to determine whether certain financial or operating activities of an entity conform to specified conditions, rules or regulations. The established criteria in this type of audit may come from a variety of sources. (Boynton and Johnson, 2006)

### **2.4.4 Fraud Investigation**

It is not a primary role of internal audit to detect fraud. Internal audit's role is to provide an independent opinion based on an objective assessment of the framework of governance, risk management and control. This will include the effectiveness of the processes put in place by management to manage the risk of fraud. In doing so, internal auditors may: Review the organization's risk assessment seeking evidence on which to base an opinion that fraud risks have been properly identified and responded to appropriately. Provide an independent opinion on the effectiveness of the fraud prevention and detection processes put in place to reduce the risk of fraud. Review new programs and policies (and changes in existing policies and programs) seeking evidence that fraud-risk had been considered where appropriate and providing an opinion on the likely effectiveness of controls designed to reduce the risk

of fraud. Consider the potential for fraud in every audit assignment and identify indicators that fraud might have been committed or control weaknesses that might indicate a vulnerability to fraud.

## **2.5 Scope of Internal Auditing**

The scope of internal audit is set by management and it can be widely. The areas of activities covered by the internal auditors are extended time to time and the extent of their roles and responsibilities differ as organization to organization. Davies said that during the past few years we have witnessed a most significant metamorphosis in the scope and practice of internal auditing. Once the field of a drudge who restricted his activity to little more than voucher checking and examining the books of account, its range has been extended so greatly as to present a field of endeavor that is almost frighteningly broad. This broadening of scope has imposed a heavy responsibility on the internal auditor (Davies, 1956).

### **The scopes of internal auditors are;**

- ✓ Reviewing the reliability and integrity of financial and operating information and for management including detailed testing of transactions and balances.
- ✓ Reviewing accounting systems and internal control.
- ✓ Reviewing the systems established to ensure compliance with those policies, Plans, procedures, laws and regulations that could have significant impact on operations and reports and determining whether the organization is in compliance.
- ✓ Reversing the means of safeguarding assets and as appropriate verifying the existence of such assets.
- ✓ Appraising the economy and efficiency with which resources are employed.
- ✓ Special investigations.
- ✓ Reviewing operations or programs to ascertain whether the results are consistent with the established objectives and goals and whether the operations or programs are being carried out as planned (Boynon and Kell ,1996)

## **2.6 Internal audit Independence**

Independence means that the auditor should not subordinate his judgment to that of the client or anyone else. In any auditing situation, be it independent financial audit, cost audit, internal audit and soon. The auditor must be independent. Independence is basically a state of mind. It is, therefore important that the auditor should not only refuse to subordinate his judgment to that of others, but he should also be free of any such interest as might affect his independent judgment even sub-consciously.(Gupta&Arora,1996)

'Independence' has a different meaning for internal audit than it does for external audit. The internal audit function is generally considered independent when it can carry out its work freely and objectively. (Www.icaew.co-UK. march, 2014)

Independence is the cornerstone of the auditing profession. It means that the auditor is neutral about the entity and therefore objective. The public can place faith in the audit function because an auditor is impartial and recognizes an obligation for fairness.(Boynton and Johnson,2006)

A distinguishing feature of internal audit is Independence. Internal audit independence in a sense that it is independent of the activities it audits. This independence best described as operational independence assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest or inherent bias or undue external influence.

The institute of internal auditors (IIA) critically indicated that internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively.

## **2.7 Internal Auditing and Internal Control**

Internal control is the most important and fundamental concept that an internal auditor must understand. An internal auditor reviews both operational and financial areas of the organization with the objective of evaluating their internal controls. Virtually all internal audit procedures focus on some form of this evaluation of internal controls.

The importance of internal control to the auditor is rooted in the second standard of field work which states that a sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed.(messier,1997)

### **2.7.1 Evaluating and Reporting on Internal Controls**

Evaluating and reporting on internal controls for improvements is the internal auditor's main responsibility. This involves:

- Identifying existing controls, documenting their characteristics and identifying the areas not covered by controls.
- Understanding the purposes of existing controls.
- Establishing criteria with which to judge the adequacy of internal controls.

- Testing controls to check whether they operate effectively (meet the criteria, to achieve their purposes).
- Reporting to management on the operation of controls.
- Recommending remedial action where necessary to improve internal controls. (Internal audit procedural manual ,MOFED)

## **2.7.2 Tools for Evaluating Internal Controls**

There are various tools used to ascertain and evaluate internal control system among which Internal Control Questionnaires (ICQs), Internal Control Evaluation Questionnaires (ICEQs) and flow charts are considered here.

### **2.7.2.1 Internal Control Questionnaires (ICQs)**

Internal control questionnaires (ICQS) are used to ask whether controls exist which meet specific control objectives. The major question which internal control questionnaires are designed to answer is 'How good is the system of controls? Where strengths are not identified, the auditors will perform work in the relevant areas. If, however, weaknesses are discovered they should then ask what errors or irregularities could be made possible by these weaknesses. (Internal audit procedural manual, MOFED)

### **2.7.2.2 Internal Control Evaluation Questionnaires (ICEQS)**

Internal Control Evaluation Questionnaires (ICEQS) are used to determine whether there are controls, which prevent or detect specified errors or omissions. This is an evaluation technique more concerned with assessing whether specific errors (or irregularities) are possible rather than establishing whether certain effective controls are present. This is achieved by reducing the control criteria for each transaction stream down to a handful of key questions (or control questions) whose characteristic is that they concentrate on the significant errors or commission that could occur at each phase of the appropriate cycle if controls are weak. Each key control question is supported by detailed control points to be considered in relation to key control question for the system. (Internal audit procedural manual, MOFED)

### **2.7.2.3 Flow Charts**

A flow chart is a pictorial or diagrammatic representation of the flow of transaction, which may vary depending upon the system used is manual or computerized. The flow of documentation is actually ascertained in correct sequence from initiation of a transaction to its final entry in the books. Flow

charts are particularly recommended for analyzing complex systems into their component parts thereby revealing gaps and weaknesses in the system. (Internal audit procedural manual, MOFED)

## **2.8 Audit Evidence**

Audit evidence is information that forms the foundation, which supports the audit findings and the audit opinion contained in the audit report. It includes documents and accounting records underlying the financial statements and all other information, which is pertinent to the auditor's examination.

Competent information is reliable and the best attainable through the use of appropriate auditing techniques. Relevant information supports audit observations and recommendations and is consistent with the objectives of the audit.

### **2.8.1 Major Techniques are Used Collecting Audit Evidence**

- **Observation** – is the use of the senses to assess certain activities. Throughout the audit there are many opportunities to exercise sight, hearing touch and smell to evaluate a wide range of items. For example, observing inventory stock taking to assess whether employees are following instructions.
- **Confirmation** involves receipt of a written or oral response from an independent third party verifying the accuracy of information that was requested by the auditor. For example confirmations of bank balance.
- **Inquiry** is the obtaining of written based or oral information from the client in response to questions from the auditor. Examples of this technique include internal control questionnaires or asking employees if certain procedures are being followed.
- **Documentation** is the auditor's examination of the client's documents and records to substantiate the information that is or should be included in the financial statements and it can be classified as internal and external.
- **Physical examination** is an inspection or counting by the auditor of tangible assets e.g., cash, inventory, etc.
- Analytical Procedure use comparisons and relationships to assess whether account balances or other data appear reasonable. (Arens and Loebbecke, 2000)

## **2.9 Internal Audit professional Standards**

### **2.9.1 Importance of Professional Standards**

Every profession requires a set of standards to govern its practices, general procedures and ethics. The standards allow specialists performing similar work to call themselves professionals because they are following recognized and consistent set of best practice standards. The key standards for internal auditors are the institute of internal auditors' (IIA's) professional standards for the practice of internal auditing. These standards represent an area that should be better represented and understood in the overall world of internal auditing, and also represent a 'must-know' set of information for internal auditors today. These standards provide a set of guidelines for internal auditors worldwide to follow in their service to management. They represent an important source of guidance for today's internal auditor and should be in every internal auditor's professional library. (Moeller, 2005)

The standard for the professional practice of internal auditing is designed to:

- Delineate basic principles that represent the practice of internal auditing as it should be.
- Provide a frame work for performing and promoting a broad range of value added internal auditing activities.
- Establish the bases for the measurement of internal audit performance.
- Foster improved organizational processes and operations.

### **2.9.2 Content of the IIA Standards**

The standards consist of what are called Attribute Standards, Performance Standards and Implementation Standards. The Attribute Standards address the characteristics of organizations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all internal audit services, the Implementation Standards also apply to specific types of engagements and are further divided between standards for assurance and those for consulting activities (Moeller, 2005).

#### **2.9.2.1 Attribute Standards**

- **Responsibilities and scope of work:** The Internal Audit is responsible for an independent, objective assurance and consulting activity designed to add value and improve the public body's operations. It helps the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and

governance processes. Internal audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations. Internal audit should devote particular attention to any aspects of the risk management, control and governance affected by material changes to the public body's risk environment. (Internal audit Procedural Manual, MOFED)

- **INDEPENDENCE:** Internal audit should be sufficiently independent of the activities, which it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgments and recommendations. It should have no executive responsibilities.
- **Proficiency and Due Professional Care:** Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.
- **Relationships with Management and Other Auditors:** Heads of Internal Audit should coordinate internal audit plans and activities with the management, other internal auditors, external auditors, and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimized.
- **Staffing, Training and Development:** Internal audit should be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to these standards. Internal auditors should be properly trained to fulfill their responsibilities and should maintain their professional competence through an appropriate ongoing development.

#### 2.9.2.2 Performance Standards

- **Audit Strategies and Planning:** The Head of Internal Audit should develop and maintain a strategy for providing the Head of public body economically and efficiently, with objective evaluation of an opinion on the effectiveness of the public body's risk management, control and

governance arrangements. Internal audit should prepare periodic work plans, designed to implement the audit strategy for approval by the Head of the Public Body.

- **Risk Assessment:** Internal Auditor should identify the different systems that exist in the public body and the risk factors that are relevant to those systems and should assess their relative significance. Risk refers to the possibility of a system having so poor internal control that the public body does not achieve its objectives effectively and efficiently. Risk assessment should enable the Internal Auditor to assess the relative vulnerabilities of the systems and those which are more risky than others and should, therefore, be audited sooner and more often.
- **Audit Working Papers:** The Internal Auditor should prepare working papers, which provide the principal evidential supports for the audit report, and demonstrate the internal auditors' compliance with standard of Internal Auditors and support for audit conclusion reached.
- **Audit Evidences:** The Internal Auditor should obtain sufficient and appropriate audit evidences to be able to draw reasonable conclusions and recommendations regarding the risk management, control and governance of the public body. The internal auditor should adequately document the audit evidences in the working papers, including the basis and extent of planning, work performed and the findings of the audit. (Internal audit manual, MOFED)
- **Deterrence, Detection, Investigation and Reporting of Fraud:** The Internal Auditor should examine and evaluate the adequacy and effectiveness of actions taken by management of the public body to deter fraud, be able to identify indicators that fraud might have been committed, investigate fraud and issue a written report at the conclusion of the investigation phase.
- **Auditing Compliance with Policies, Plans, Procedures, Laws and Regulations:** Internal Auditors should review the systems established to ensure compliance with applicable policies, plans, procedures, laws and regulations and should determine whether the public body is in compliance.
- **Quality Assurance:** The head of Internal Audit should design a quality assurance program to provide reasonable assurance that audit assignments conform to all applicable standards and guidelines. Internal audit assignments should be supervised and objectively reviewed for overall effectiveness and compliance with relevant policies and standards. Supervision, internal and external review should be carried out to maintain the internal auditing department's capability to perform its functions in an efficient and effective manner.

- **Follow-Up on Reported Audit Findings and Recommendations:** The Internal Auditor should determine the adequacy, effectiveness and timeliness of action taken by management of the public body on reported findings. (Internal audit manual, MOFED)

### 2.10 Internal Audit Ethical Principles

- ✓ **Integrity:** the integrity of internal auditors establishes trust and thus provides the basis for the reliance on their judgment
- ✓ **Objectivity:** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
- ✓ **Confidentiality:** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- ✓ **Competency:** Internal auditors apply the knowledge skills and experience needed in the performance of internal auditing services. (Public Sector Internal Audit Standards, IIA)

### 2.11 Empirical Literature

There have been various studies on the internal auditing practices and related problems. However there is no uniform evidence as internal auditing functions are not given better consulting and assurance activities. Results and evidences about internal auditing practices and problems differ by country, region, and level of development, and soon.

The study conducted by priscillia and etal (1994) Internal Auditing Internationally: Another step toward global Harmonization. It was designed to determine the adherence to the standards for the professional practice of internal auditing and to compare the functions covered by internal auditors in the surveyed countries. The writers suggest that the future of internal auditing requires that internal auditors become more technically proficient in auditing computer systems. Internal auditing departments to expand their scope are corporate ethics, fraud investigations, organizational controls and quality control.

Brenda porter,(1993) An empirical study of the audit expectation- performance Gap. This paper reports the findings of a mail survey conducted in 1989 to ascertain the opinions of auditors' interest groups in Newzealand regarding auditors existing duties and the standard of performance of these duties and the duties that auditors should perform. This study concluded that the audit expectation- performance gap has been defined as the gap between society's expectation of auditors and auditor's performance. The

study also suggested that if the profession adopts, this approach towards narrowing the audit expectation (performance gap) rapid progress will be made towards bringing society's expectations of auditors.

“New Horizons for Internal Auditing “ the study conducted by John B.thurston (1950), According to this paper Internal auditing is one of the most important control techniques which is receiving wide recognition of use. It is the modern control technique for providing top management with many important facts it would not otherwise have for insuring adherence to budgetary and other standards, for securing observance of laws and regulations, for calling attention to the inadequacy of physical property and to lack of property in its use.

### **2.11.1 Summary of Previous Researches and Literature Gap**

The study under taken by Abebe Desseye, (2009) titled, “The role and Effectiveness of Internal Audit Practices in Public Enterprises –The Case of Ethiopian Telecommunication Corporation.” The study employed both qualitative and quantitative approach. In this study the author indicated some problem areas in internal audit practice of this specific organization (ETC),such as there is lack of independence of zones and region auditors, risk management is not fully exercised, annual plan of the internal audit didn't consider risk factors, and soon. The author also suggested that in order to eliminate the independency problem, the report relationship of internal auditors of zones and regions of ETC should be rearranged. Internal auditors specially zones and regions should maintain their technical competence through continuing education and training. The study not included other public enterprises it is only focused on a single public enterprise.

Other study by Bethlehem Fekadu, (2009) titled “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” The main purpose of this study was to investigate challenging factors that has influenced the Ethiopian higher governmental institutions to pursue their internal audit practice. The study was continued to four universities, Adama University, Hawasa University, Harama University and Addis Ababa University. Seven internal auditors were used as data source which were selected using convenience sampling techniques. To obtain the required information open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data. The findings of the study showed that lack of proper management commitment, lack of developmental programs for internal auditors and

other organizational factors were critical factors influencing effectiveness of internal audit functions in the respective universities. To alleviate those problems, the study recommended that management and the audit division of the respective universities has to work jointly to improve internal audit functions of their respective universities as per requirements of international standards.

To conclude this all the above studies analyzed internal audit practices in some federal ministries and public enterprise. Regional sectors and city administrations didn't included in their studies. To fulfill this gap, this study analyzed internal audit roles and its challenges in city Administration specially focused on Bole Sub city Administration and its districts.

## **Chapter Three**

### **Research Design and Methodology**

#### **3.1 Research Methodology**

The methodology part is the most important part in research that is glue which holds the whole research together. This section comprises research approach, population, sampling technique, source of data, data collection and analysis methods.

##### **3.1.1 Research design**

The research design employed in this study is descriptive research type that enables the researcher to describe the phenomena as reported by the researcher informant. Both qualitative and quantitative data were used for the research purpose.

##### **3.1.2 Research Approach**

To achieve the objective of this study the researcher used descriptive research approach. The rationale to use descriptive research method is “descriptive research methodology studies are those which concerned with describing the characteristics of a particular individual, or a group, specific predictions, with narration of facts and characteristics concerning individual, group or situation.” (Kothari, 2004) So that, the nature and purpose of this paper is to assess or examine internal auditing roles and its challenges. Therefore, descriptive approach is appropriate to explain internal audit practice problems and to formulate rational and sound recommendation which may improve the role of internal auditors in order to assist the organization to use its resources efficiently and effectively.

##### **3.1.3 Population of the study**

This study focused on the role of internal auditing and its challenges in the Bole Sub City Administration and its districts. The sub city has 1 (one) expert auditor, 6 (six) senior auditors and 3 (three) junior auditors and internal audit sub processes which are accountable to top management in the head office and there are 11 districts, and in each district there is 2 (two) internal auditor.

At district level there are 1 senior, 1 junior and 1 process owner in each with in total 11 senior audit officers, 11 junior audit officers and 11 process owners to carry out the internal audit practices.

To get triangulate information and increase the reliability of the data, top management and finance core process owners of the sub city and districts also included.

#### **3.1.4 Sampling Technique**

The researcher selected all expert, senior and junior auditors of the internal audit sub processes from the two categories (sub city and District level) mentioned in the population purposively to get proper information from appropriate persons that are more experienced and qualified. The main executive of the sub city (top management), the finance core process owners of the sub city and districts also were chosen by purposive sampling technique. The reasons why they were chosen are the internal audit sub process is directly accountable to top management that has to report regularly. Therefore top management is well informed on the tasks of internal audit department. The day to day activity of Finance and internal audit is very much linked. Both are working together for the achievement of their organization objectives and efficient use of public resources. Therefore including them in this study has importance. Also finance core process owners have more opportunities to know the internal audit activities than other finance personnel.

#### **3.1.5 Data Sources**

The primary and secondary data were used in this study. The primary source was generated through both open ended and structured questionnaires was distributed for internal audit officers, internal audit sub process owners, heads of finance core processes at the sub city and district level. Unstructured interview was conducted for the main executive of the sub city (top management). The secondary sources generated from reviews of internal audit plans, reports, articles, books, internet, journals, internal audit procedural manual(MOFED), financial administration proclamation of the city government, internal audit regulations and directives issued by BOFED.

#### **3.1.5 Data Collection Methods**

The study was carried out by using questionnaires to be distributed for internal audit process owners and senior auditors. In addition to that to increase the reliability and validity of the data, questionnaires was distributed the finance core process owners of the sub city and districts. Besides to this unstructured interview was conducted with top management. Because interview is used to collect information personally from the sources concerned. It is also suitable for intensive investigations (Kothari, 2004)

### **3.1.6 Data Analysis Methods**

Under this study, data was analyzed in both qualitative and quantitative data analysis method. The researcher used qualitative analysis techniques for analyzing manager's response, and also by using quantitative data analysis method response of employees was be examined.

Depending on the type of questions and nature of the data a descriptive statistics method of data analysis such as ratios and percentage were used. The data presented with the help of figures, tables and graphs. The data was analyzed with the help of MS-Excel.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

#### 4.1. Data Gathering

Data has been collected using the attached questionnaire (Annex1) to meet the objective of this research study. The respondents are internal audit process owners, senior auditors, and finance core process owners at the sub city and districts level. The following table is response rate.

**Table1: Response Rate**

Office	Target Respondents	Issued	Responded
Internal audit process owners, Senior auditors and junior auditors at Sub city head office level.	Internal audit process owners (Audit Expert)	1	1
	Senior auditors	6	6
	junior auditors	3	3
Finance core process at the sub city level	Finance core process owner	1	1
Internal audit sub processes at 11 districts administration offices	Internal audit process owner	11	11
	Senior auditors	11	11
	Junior auditors	11	11
Finance core processes at 11 districts administration offices	Finance core process owners	11	11
<b>Total</b>		<b>55</b>	<b>55 = 100 %</b>

Unstructured interview (Annex 2) also has been conducted with top manager of the sub city in order to clarify unclear responses of questionnaires and to get additional information mainly to triangulate data.

#### 4.1.1. Personal information

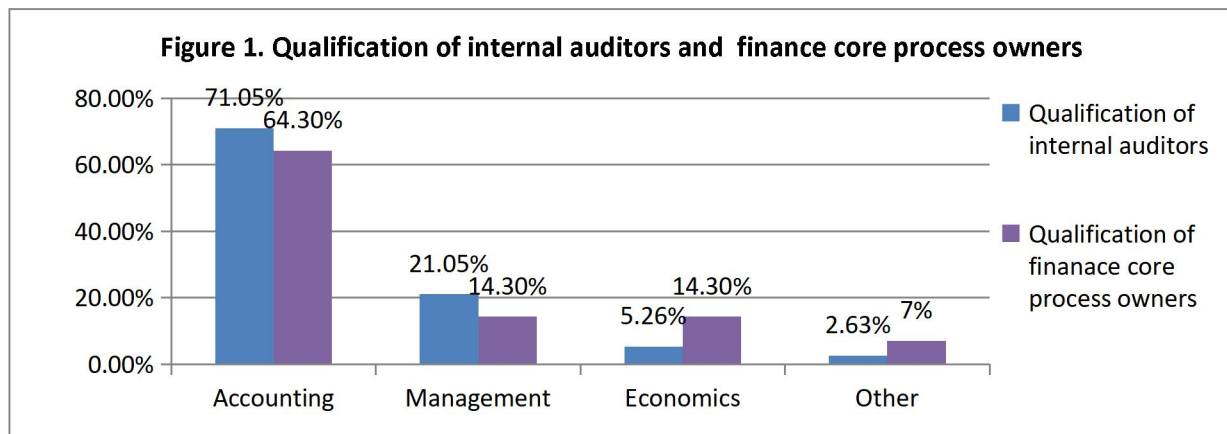
**Table 2: Educational level of internal auditors and finance core process owners**

Description	Educational Level of Respondents											
	12.Comp.		Certificate		Diploma		Degree		Masters		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Internal auditors	-	-	-	-	-	-	31	72.09	12	27.91	43	100
Finance core process owners	-	-	-	-	-	-	7	58.33	5	41.67	12	100

**Source: Field survey, 2025**

Regarding the questionnaire developed to identify the educational level of internal auditors, 72.09% of them are degree holders. The others 27.91% of internal auditors have Msc degree. From this it can be understood that degree the large position. This may signify that almost all the respondents have enough educational background which may increase the relevance and accuracy of the collected data.

Regarding educational level of finance core process owners as shown as in table 2, most of the respondents (58.33%) are degree holders and the rest 41.67% of them also have masters. This showed that all respondents have enough knowledge and educational background which is used to answer the researcher's questions.



**Source: Field survey, 2025**

According to the above figure1, 71.05% of internal auditors graduated in accounting profession. The other 21.05% of internal auditors have management qualification. And also 5.26% of employees graduated in economics. The rest 2.63% auditors have the other field of profession which is not listed in the questionnaires. This data clearly showed that the majority of internal auditors have accounting profession which is directly linked to auditing.

With regards to finance heads, 64.3%, and 14.3% of the graduated in accounting and management profession respectively. The other 14.3% of the finance core process owners also qualified in economics field and the rest 7% of them graduated in the other field of study (figure1). This data generally indicated that most finance core process owners like internal auditors graduated in accounting which is related to auditing profession.

**Table 3: Work experiences of internal auditors and finance core process owners**

Description	Level of work Experiences											
	1-5years		6-10 years		11-15 years		16-20years		Above 20 years		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Internal auditors	4	9.30	15	34.8	20	46.5	4	9.30	-	-	43	100
Finance core process owners	-	-	2	16.6	9	75	1	8.33	-	-	12	100

**Source: Field survey, 2025**

As can be seen in the above table 3, 9.3%, 34.8%, 46.5% and 9.3% of the internal auditors have from 1-5, 6-10, 11-15 and 16-20 work experience respectively. This showed that majority of respondents have enough experience and work practice in internal audit and they can give good contribution for the realization of the statement of the problem.

In the case of finance core process owners, only 16.6% of the respondents have 6-10 years of experience, the others 75% and 8.33% of finance managers work experience is 11-15 years and 16-20 years respectively, (table3). This implies that the finance core process have enough work experience in order to response the research questions.

Membership of the institute of internal auditors (IIA) is used for the internal auditors. When they become a member of the IIA they receive support and guidance on every aspect of internal auditing. They also get access to all of IIA’s technical guidance, exclusive features, news and webinars, plus a host of other membership benefits.

With regarding to auditors except the one internal audit sub process owner of the sub city which is accountable to sub city main executive office, all other process owners and senior auditors of the sub city and districts were not professionally certified, they are not the member of Institute of Internal Auditors (IIA). This clearly showed that internal auditors in this organization are not users of IIA’s membership benefits.

#### 4.2. Internal audit function in Bole Sub City Administration

Bole Sub city internal audit is organized as internal audit sub process level. In the head office there are three sub processes. These sub processes submit their reports to the three top management of the sub city which are main executive office of the sub city, capacity building office and land development and management office. In the 11 districts level there is one internal audit sub process at each district which is accountable to head of the districts.

##### 4.2.1 Manpower structure

**Table 4: Manpower structure**

Description	Required man power in the head office processes	Available man power in the head office processes	Required man power in the 11districts office internal audit processes	Available man power in the 11 districts office internal audit processes
Internal audit process owner (Audit Expert)	1	1	11	11

Senior Audit officer	6	6	11	11
Junior auditors	7	3	11	11
<b>Total</b>	<b>14</b>	<b>10</b>	<b>33</b>	<b>33</b>

**Source: Internal audit report, head office**

According to the above table 4, the total man power requirement in the head office is about 14 but the available man power in this section is about 10 which is 71.42% of the total requirement. This implies that there are incomplete work places both at head office. Regarding district offices the report showed that the total man power requirement in the districts is about 33 but the available man power in this section is about 33 which is also 100% of the total requirement. This implies that there are complete work places at districts levels.

#### 4.2.2 Types of Internal Audits performed by the internal auditors

**Table 5: Responses from internal auditors regarding types of internal audit**

Different types of audits can be performed by the internal auditors. Some of these are; financial audit for public financial statements, operational audit, compliance audit, fraud investigation, and others.

Description	Type of Responses											
	strongly agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
financial statement audit	25	58.1	18	41.8	-		-		-		43	100
operational audit	18	41.8	19	44.2	6	13.9	-		-		43	100
Compliance audit	25	58.1	18	41.8	-		-		-		43	100
Investigation of fraud			12	27.9			17	39.5	14	32.5	43	100

**Source: Field survey, 2025**

As can be seen in the above table 5, regarding the financial statement of audit 58.1% of the internal auditors strongly agree about the accomplishment of this function in Bole Sub city Administration. Also the other 41.8% of them agree on this point. This implies that financial statement audit is successfully

implemented by the internal auditors. Regarding operational audit 41.8%, 44.2%, and 13.9% of the internal auditors strongly agree, agree and neutral respectively. This data showed that operational audit is one of the main functions of internal auditors in Bole Sub City Administration.

According to table 5, compliance audit is one of the main functions of internal auditors in this organization. Because 58.1% and 41.8% of internal auditors strongly agree and agree to this point respectively. One of the main functions of internal audit is provide an independent opinion on the effectiveness of the fraud prevention and detection processes put in place to reduce the risk of fraud. It is desirable that the auditor should exercise reasonable care and skill, so that he may detect errors and frauds. (Basu, 2006)

As table 5 shows, only 27.9% of the internal auditors agree about investigation of fraud is one of the functions of their department. But also 39.5% and 32.5% of the internal auditors preferred disagree and strongly disagree about investigation of fraud is one of the functions of internal auditors in Bole Sub City Administration. This response indicates that investigation of fraud is not properly implemented by most internal auditors.

**Table 6. Responses from finance heads concerning types of internal audit**

Description	Types of Responses											
	Strongly agree		Agree		Neutral		disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
financial statement audit	5	41.6	7	58.3							12	100
operational audit			2	16.6	2	16.6	8	66.6			12	100
Compliance audit	11	91.6	1	8.3							12	100
Investigation of fraud					3	25	9	75			12	100

**Source: Field survey, 2025**

As indicated in the above table 6, 41.6% and 58.3% of the finance managers strongly agree and agree respectively. This clearly indicates that responses of finance process owners are almost the same with responses of internal auditors in the case of financial statement audit.

With regard to operational audit 16.6% of finance core process owners are said agree and 16.6% of them also preferred neutral, and the rest 66.6 % of the respondents also said that disagree to this point. This response is different from internal auditors' response. The majority of finance heads not accepted implementation of operational audit by the internal auditors.

Finance heads believe that compliance audit is implemented by internal auditors of this organization because almost 91.6% of them strongly agree and the rest 8.3% of the managers also agree about this point (table, 6).

With regard to investigation of fraud, as shown as table 6, 25% of the respondents preferred neutral and also 7% of the managers said that disagree the point. This response almost related with internal auditors response concerning this specific issue. Therefore it is indicated that investigation of fraud is not exercised by the internal auditors.

According to the interviewee internal audit sub process mainly focused on financial audit, operational audit and compliance audit. Investigation of fraud is not accomplished by internal auditors. The top manager response is the same to internal auditors and finance managers for this question.

#### **4.2.3 Scope of internal audit**

The scope of internal audit is set by management and it can be widely. The areas of activities covered by the internal auditors are extended time to time and the extent of their roles and responsibilities is different from organization to organization (Davies, 1956).

#### **Table 7 Responses of internal auditors concerning scope of internal audit**

Description	Types of Responses											
	strongly agree		Agree		Neutral		disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Reviewing the reliability and integrity of financial and operating information and detailed testing of transaction and balances	19	44.1	24	55.8	-		-		-		43	100
Reviewing accounting systems and internal control			15	34.8	5	11.6	23	53.4			43	100
Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations	10	23.2	33	76.7							43	100
Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets	18	41.8	25	58.1							43	100

**Source: Field survey, 2025**

When the accounting work is completed, (usually at the end of the fiscal year) the auditors should be checking the accounts prepared by the accountants. It is the duty of the auditor to critically examine and verify the accounts. (Basu, 2006)

According to the above table 7, 44.1% of the internal auditors strongly agree about their audit scope cover reviewing the reliability and integrity of financial and operating information and detailed testing of transactions and balances. The rest 55.8% of the respondents also agree that point. This implies that this audit area properly included in internal auditors' audit scope.

Regarding Accounting systems and internal controls only 34.8 % of the respondents agree, the others 11.6% neutral and the rest 53.4% of the internal auditors disagree. This response clearly showed that there is a problem and it is not fully covered by the internal auditors audit scope in this organization.

The other area should be covered by the internal auditors is reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations. As indicated in the table 7, 23.2% of the respondents strongly agree about the implementation of this audit scope. The rest 76.7 % of them also agree about this point. This implies that internal auditors in Bole Sub City Administration always try to include this important audit scope in their audit engagement.

According to table 7, 41.8%, and 58.1 % of the internal auditors strongly agree and agree respectively, in the case of reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets audit area. This response can give a clue this audit area always included internal auditors audit scope in this organization.

**Table 8: Responses of finance core process owners concerning scope of internal audit**

Description	Types of Response											
	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Reviewing the reliability and integrity of financial and operating information and detailed testing of transaction and balances	3	25	9	75							12	100
Reviewing accounting systems and internal control					4	33.3	8	66.7			12	100
Reviewing the systems established to ensure compliance with those policies, plans ,procedures, laws	6	50	6	50							12	100

and regulations												
Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets			2	16.6	2	16.6	8	66.7			12	100

**Source: Field survey, 2025**

As shown in the above table 8, the response of finance process owners regarding the area of audit reviewing the reliability and integrity of financial and operating information and detailed testing of transaction and balances is aligned with internal auditors’ response. 25% of the managers strongly agree and the rest 75% of them agree. This implies that internal auditors of this organization properly covered this audit area.

The other point related to audit scope is reviewing accounting systems and internal control. The finance process owners answer related to this point is 33.3% neutral and 66.7% of them also disagree, (table 8). This response can be indicated that there is a problem in the accomplishment of this audit area.

The response of finance managers almost the same with internal auditors concerning the other audit scope area reviewing the systems established to ensure compliance with those policies, plans, procedures, laws and regulations. As shown table 8, 50% of the finance processes owners are strongly agree and the rest 50%of them also agree. This response showed that internal auditors fully exercising in the case of this area.

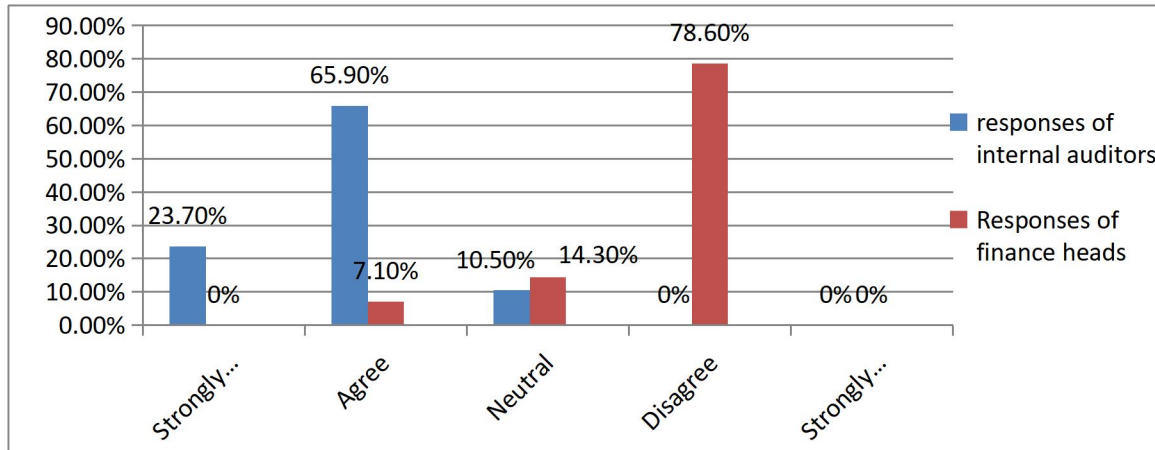
As indicated in the table 8, 16.6%,16.6% and 66.7% of the respondents agree, neutral and disagree respectively, concerning reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets. According to the majority of finance managers’ response in the case of this area internal auditors are not active. This response is almost different from internal auditors’ response.

#### **4.2.4. Evaluation of Internal Control**

Evaluating and reporting internal controls for improvements is the internal auditor's main responsibility. This involves: identifying existing controls, documenting their characteristics and identifying the areas not covered by controls, establishing criteria with which to judge the adequacy of internal controls,

testing controls to check whether they operate effectively Recommending remedial action where necessary to improve internal controls. (MOFED, 2005)

**Figure 2, Evaluation of internal control.**



**Source: Field survey, 2025**

According to the above figure 2, 23.7% of internal auditors strongly agree and 65.9 % of them also agree. Only the rest 10.5% of the respondents preferred neutral. This implies that according to internal auditors’ response the audit departments evaluate the efficiency and effectiveness of internal control system of the organization.

Although most of internal auditors said that internal control evaluation is done properly, the finance core process owners’ response concerning this point is negative. Only 7.1% of the managers preferred agree and but the other 14.5% and 78.6% of the respondents said that neutral and disagree. This response can give a clue for there is a problem in the implementation of evaluation of internal control by the internal auditors in BSCA.

The top manager’s response concerning internal control evaluation is internal audit has played a vital role on the success of organizational plan by giving consultancy services for the top management and for all sectors in the use of public resources and safeguarding of assets. If necessary, audit of the efficiency of utilization of human, financial and other resources. However the manager also said that most of the time the practice of internal auditors has been limited to expressing recommendations on financial statements (financial audit) and related issues.

#### 4.2.5. Audit Evidence Gathering Techniques

The Internal Auditor should obtain sufficient and appropriate audit evidences to be able to draw reasonable conclusions and recommendations regarding the risk management, control and governance of the public body. The internal auditor should adequately document the audit evidences in the working papers, including the basis and extent of planning, work performed and the findings of the audit (MOFED, 2005).

**Table 9: Audit evidence techniques**

Description	Type of Responses											
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Observation	13	30.2	25	58.1	5	11.6					43	100
Confirmation	10	23.2	24	55.8	4	9.3					43	100
Inquiry			23	53.4			20	46.5			43	100
Physical Examination	20	46.5	23	53.4							43	100

**Source: Field survey, 2025**

As indicated in the above table 9, 30.2, 58.1, and 11.6 % of the internal auditors preferred strongly agree, agree and neutral respectively, regards use of observation techniques to collect audit evidences. This response implies that most of internal auditors use this technique properly to collect audit evidences.

Confirmation is other kind of audit evidence technique which involves receipt of a written or oral response from an independent third party verifying the accuracy of information that was requested by the auditor. For example confirmations of bank balance (Arens & Loebbecke, 2000).

According to table 9, 23.2% of the internal auditors strongly agree and 55.8 % of them also agree and the rest only 9.3 of the respondents have no comment (table 9). This showed that internal auditors use confirmation to collect information.

As shown in the above table 9, in the case of other audit technique inquiry, 53.4%, and 46.5% of the internal auditors agree and disagree respectively. This response clearly indicated that this technique not implemented by most internal auditors but also some of them also used.

As indicated in the above table 9, 46.5 and 53.4 % of the internal auditors strongly agree and agree about Physical examination is one of the audit techniques accomplished by them to collect audit evidence .This implies that Internal auditors in this organization conduct Physical examination by inspection or counting of tangible and other assets e.g., cash, inventory, etc

**4.3. Internal Audit Professional Standards**

The key standards for internal auditors are the institute of internal auditors’ (IIA’s) professional standards for the practice of internal auditing. These standards provide a set of guidelines for internal auditors worldwide to follow in their service to management. They represent an important source of guidance for today’s internal auditor and should be in every internal auditor’s professional library (Moeller, 2005)

**4.3.1 Internal Audit Practices Related to Professional Practices**

**Table 10: Responses of internal auditors concerning internal audit practices**

Type of responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	33	76.7	76.7	76.7
	Neutral	10	23.2	23.2	100.0
	Total	43	100.0	100.0	

**Source: Field survey, 2025**

As shown as table 10, 76.7 % of the internal auditors agree and 23.2 % of them preferred neutral about internal audit practices in this organization follow accepted internal audit professional standards. This response showed that for most internal auditors believe their work practices follow accepted internal audit professional standards.

**Table 11: Responses of finance core process owners about internal audit practices**

Type of responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	10	83.3	83.3	83.3
	Neutral	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Source: Field survey, 2025

Most finance core process owners agree to internal auditors follow accepted internal audit professional standards. Because according to table 11, 83.3 % of the respondents preferred agree and the rest 16.7 % of them also neutral to this point.

#### 4.3.2 Strategic and Annual Plan Based on the IIA Standards

The head of Internal Audit should develop and maintain a strategy for providing the head of public body economically and efficiently, with objective evaluation of an opinion on the effectiveness of the public body's risk management, control and governance arrangements. Internal audit should prepare periodic work plans, designed to implement the audit strategy for approval by the Head of the Public Body (MOFED, 2005).

**Table 12: Internal auditors' response concerning strategic and annual audit plan**

Type of responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	32	74.4	74.4	74.4
	Neutral	5	11.6	11.6	86
	Disagree	6	13.9	13.9	100.0
	Total	43	100.0	100.0	

Source: Field survey, 2025

As shown table 12, 74.4% and 11.6% of the internal auditors preferred agree and neutral respectively. Only the other 13.9 % of them also disagree about this point. This showed that Most of the internal auditors believe that their strategic and annual plan prepare based on IIA standards.

**Table 13: Responses of finance heads concerning strategic and annual audit plan**

Type of responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	4	33.3	33.3	33.3
	Disagree	8	66.7	66.7	100.0
	Total	12	100.0	100.0	

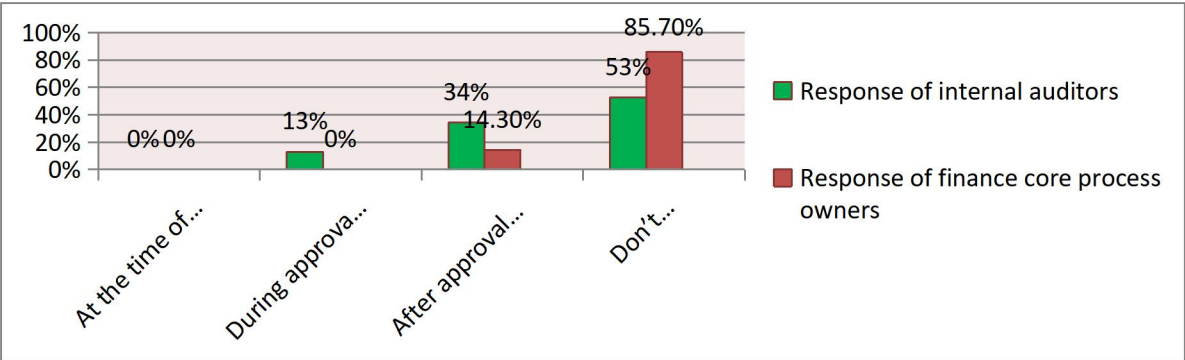
Source: Field survey, 2025

In the contrary, the finance heads response regards to strategic and annual plan preparation is negative relative to internal auditors’ response. Because only 33.3 % of the respondents agree and but the rest 66.7 % of them also disagree, (table 13). This implies that most finance managers not believe internal auditors of this organization prepare strategic and annual plan based on IIA standards.

**4.3.3. Communication of the Plan**

The other question presented for internal auditors and finance core process owners is “when do communicate the internal audit sub process its plans to other departments (auditees).

Figure 3: Communication of the plan



Source: Field survey, 2025

As indicated in the above figure3, the response of internal auditors for this question is 13% of the respondents said that during approval of the plan the internal audit department communicates its plan to auditees. The other 34% preferred after approval of the plan and the rest 53% of them said that the department doesn’t communicate its plan to auditees.

Concerning communication of the plan the response of finance managers is different from internal auditors. Only 14.3% of the finance core process owners preferred after approval of the plan, but the rest 85.7% of them said that the audit sub process does not communicated its plan. This implies that there is a problem regards communication of the plan in the internal audit department.

The Internal Audit is responsible for an independent, objective assurance and consulting activity designed to add value and improve the public body’s operations. It helps the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (MOFED, 2005).

What assistances do you receive from internal audit department? This question presented to finance core process owners of Bole Sub City Administration.71% of the finance managers said that there is no assistance from the internal auditors. But also only 28.6% of the respondents said that internal auditors give some consulting service about use of approved budget, strictly following finance rules and procedures, safeguarding of assets, assistance related to norm budget and soon.

The finance core process owners’ response clearly indicated that most of the time internal auditors of the Bole Sub City Administration don’t give consulting activity to improve the operations of the finance sector, their focus mainly on financial audit after closing the accounts.

**4.3.4. Internal Audit Principles of Ethics**

There are certain **principles** which underlie every audit. An auditor has to ensure compliance with these principles in carrying out any audit. These principles provide the benchmark against which an auditor’s performance is evaluated.

**Table 14: Internal auditors’ responses concerning internal audit practices in BSCA follow internal audit principle of ethics**

Description	Type of Responses					Total
	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	

	No	%	No	%	No	%	No	%	No	%	No	%
Integrity	11	25.5	32	74.4							43	100
Confidentiality	13	30.2	30	69.7							43	100
Objectivity			7	16.2	6	13.9	30	69.7			43	100
Competency			11	25.5	7	16.2	25	58.1			43	100

**Source: Field survey, 2025**

The first basic principle governing an audit is integrity. According to the IIA, it is an essential quality of an auditor, i.e. He should be honest, straight forward and sincere in his approach to his professional work.

As shown in table 14, 25.5% of the internal auditors strongly agree and the other 74.4 % of them agree in the principles of integrity. This is the good indicator of honesty and sincerely in the operation of internal auditors of the study organization.

Maintaining confidentiality is an important principle to be observed by any professional. The auditor has to ensure the confidentiality of the information acquired in the course of an audit.

Regards confidentiality 30.2% of the respondents are strongly agree and 69.7 of them also agree relation to application of this principle,(table 14). This response showed that internal auditors do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

The auditor should be objective, i.e. detached, fair and unbiased. His opinion should be based on an objective consideration of facts rather than on any predetermined notions or bias.

As shown as table 14, only 16.2% of the respondents agree and 13.9 % of them also preferred neutral. But the rest 69.7 % of the internal auditors are disagree in relation to objectivity principle. This response shows that there is a significant problem on the application of Principle of objectivity.

Auditing requires special skills and technical competence, which are developed through proper education and training. The audit should perform and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing (MOFED, 2005).

From the above table 14, it can be seen that concerning competency 25.5 % of the internal auditors are agree and 16.2 % of them are neutral on this issue and the rest 58.1 % of them are disagree. The result of the investigation can give a clue as most respondents don't believe on the application of competency principle by internal audit departments.

**Table 15: Responses of finance heads concerning principle of ethics**

**Source: Field survey, 2025**

In the case of integrity principle (table 15), 83.3 % of the finance heads agree and 16.7% of them also

Description	Type of Responses											
	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Integrity	-	-	10	83.3	2	16.7	-	-	-	-	12	100
Confidentiality	-	-	10	83.3	2	16.7	-	-	-	-	12	100
Objectivity	-	-			2	16.7	10	83.3	-	-	12	100
Competency	-	-	4	33.3	-	-	8	66.7	-	-	12	100

preferred neutral. This implies that majority of finance managers believe that integrity principle is properly implemented by internal auditors. This response is almost the same with internal auditors' response.

With regards to confidentiality principle (table 15), the finance managers also agreed with internal auditors because 83.3% of the respondents agree and 16.7% of them also preferred neutral. This response showed that internal auditors of this organization properly implemented confidentiality principles.

As shown in table 15, 16.7% of the finance core process owners agree, but the rest 83.3% of them disagree about objectivity principle. This implies that both type of respondents (internal auditors and finance heads) came to agreement about there is a problem in the application of this principle.

Competency principle is the other question presented to finance managers. Only 33.3% of the respondents agree and the rest 66.7% of them also preferred disagree, (table15). This response clearly showed that most finance core process owners don't believe that competency principle is not properly applicable by internal auditors because most of them have not necessary special skills and technical competence, which are developed through proper education and training.

#### 4.4. Independency of Internal Auditors

**Table 16. Responses of internal auditors concerning independency**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	7	16.2	16.2	16.2
	Disagree	26	60.4	60.4	76.6
	Strongly disagree	10	23.2	23.2	100.0
	Total	43	100.0	100.0	

**Source: Field survey, 2025**

As shown as in (table 16), only 16.2% of the internal auditors agree and but the rest, 60.4% and 23.2% of the internal auditors preferred disagree and strongly disagree about the independence of internal auditors. This clearly indicated that there is a significant problem in their work freedom.

**Table 17: Responses of finance core process owners concerning independency**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	2	16.6	16.6	16.6
	Agree	10	83.4	83.4	100.0
	Total	12	100.0	100.0	

**Source; field survey, 2025**

As shown as table 17, 83.4 % and 16.6 % of the finance core process owners agree and neutral on the independence of internal auditors, (table 25). This showed that most of the finance heads accepted the independency of the internal auditors.

According to the interview the top manager’s response concerning internal auditors’ independence is they are free from any interference. This response has difference from internal auditors’ response. This implies that there is some disagreement between the two on this specific issue.

**4.4.1. BOFED’s role on creating and supporting independence**

Bole Sub City Administration Internal Audit Sub Process directly accountable to sub city’s top management. In addition, Internal Audit Sub Process submit its report, audit findings and recommendations regularly for Addis Ababa City Government Finance and Economic Bureau (BOFED) especially to Modern Audit System Implementation Core Process (BOFED)

This department is structured under BOFED and one of its objectives is to give different capacity building programs to sub cities internal audit sections. To attain this objective, the functions undertaken by this core process are: Preparing internal Audit Module and manual, under taking capacity building training, conducting internal Audit supervision and professional support, arranging experience sharing program for internal auditors and soon. (BOFED, 2014)

**Table 18: Responses of internal auditors concerning the current role of BOFED**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	7	16.2	16.2	16.2
	Disagree	25	58.1	58.1	74.3
	Strongly disagree	11	25.5	25.5	100.0
	<b>Total</b>	43	100.0	100.0	

**Source: Field survey, 2025**

As indicated table 18, only 16.2 % of the internal auditors agree to BOFED support in the strength of independency of internal auditors. But 58.1% of them disagree and the rest 25.5% of the respondents also strongly disagree to the BOFED support. This implies that most internal auditors don’t believe that BOFED gives enough support to them for strengthening their independency.

**Table 19: Responses of finance heads concerning the current role of BOFED**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	2	16.6	16.6	16.6
	Disagree	10	83.4	83.4	100
	Total	12	100.0	100.0	

Source: Field survey, 2025

The Majority of finance heads response regarding MOFED support on strengthening independency of internal auditors is almost the **same** with internal auditors' response. Because only 16.6 % of the respondents agree but the rest 83.4 % of the finance heads response is disagree, (table 19).

#### 4.4.2. Role of top management on creating and supporting independence

Table 20: Responses of internal auditors concerning the top management support

Type of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	10	23.25	23.25	23.25
	Disagree	23	53.50	53.50	76.75
	strongly disagree	10	23.25	23.25	100.0
	Total	43	100.0	100.0	

Source: Field survey, 2025

As shown as table 20, only 23.25%of the internal auditors preferred agree about getting support from top management to exercise independency. But the others 53.50 % and 23.25% of the respondents said that disagree and strongly disagree respectively. This response clearly indicated that internal auditors in this organization most of the time doesn't get necessary support from top management to improve independence.

Table 21: Responses of finance heads concerning top management support

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	4	33.3	33.3	33.3
	Disagree	8	66.7	66.7	100.0
	Total	14	100.0	100.0	

Source: Field survey, 2025

There is similarity between the responses of internal auditors and finance core process owners regarding top management support. As indicates in the table 21, 33.3%, and 66.7% the respondents agree, and disagree respectively. This implies that majority of managers believe that top management of the organization doesn't provide continuous assistance for the internal auditors.

#### 4.4.3. Role of finance Administration Proclamation 16/2009 on independence

The government shall protect heads and staff of internal audit with legal protection against any persecution because of performance of their duties. (proclamation.No.16/2009)

**Table 22: Responses of internal auditors concerning to finance administration proclamation 16/2009**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	12	27.9	27.9	27.9
	Neutral	25	58.1	58.1	86
	Strongly disagree	6	13.9	13.9	100.0
	Total	43	100.0	100.0	

Source: Field survey, 2025

As shown as table 22, only 27.9% of the internal auditors agree and the others 58.1% and 13.9% of the respondents preferred neutral and strongly disagree. This response clearly indicated that most internal auditors have not awareness about this proclamation help them to exercise independence and prevent from any suffer because of their activities.

**Table 23: Responses of finance heads concerning to finance administration proclamation 16/2009**

Types of Responses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	11	91.6	91.6	91.6
	Neutral	1	8.4	8.4	100.0
	Total	12	100.0	100.0	

**Source: Field survey, 2025**

The finance managers' response regarding this proclamation different from internal auditors' response. As table 23, 91.6% of the respondents agree and 8.4% of them neutral to this point. This showed that the majority of the finance heads believe this proclamation 16/2009 help the internal auditors to discharge their responsibilities properly.

#### 4.5 Major challenges faced by internal auditors

**Table 24: Major challenges faced by internal auditors**

Description	Types of Responses											
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Inadequate support of top management	22	51.6	17	39.5	4	9.3					43	100
Lack of skilled manpower	25	58.1	18	41.8							43	100
Lack of clear policies and procedures			8	18.6	5	11.6	30	69.7			43	100
High turnover of internal auditors	18	41.8	25	58.1							43	100
Lack of continuous training for internal auditors	15	34.8	24	55.8	4	9.3					43	100
Lack of budget	12	27.9	25	58.1	6	13.9					43	100

**Source: Field survey, 2025**

As shown in the above table 24, 51.6%, 39.5%, and 9.5 % of the internal auditors preferred strongly agree, agree and neutral respectively. This response showed that internal auditors believe inadequate support of management is one of the challenges influencing their activities.

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities (Internal Audit Manual, MOFED). In the case of lack of skilled manpower 58.1%

and 41.8% of the respondents preferred strongly agree and agree, (table 24). This response clearly indicates that the respondents generally came into agreement lack of skilled manpower is one of the main factor influencing internal audit activities in Bole Sub City Administration.

The other question is Lack of clear policies and procedures is whether factor influencing internal audit activities or not. As shown as table 24, 15.6%, 11.6% and 69.7% of the internal auditors agree, neutral and disagree respectively for this specific issue. This implies that the majority of the respondents not accepted this factor is influencing internal audit activities.

According to table 24, concerning high turnover of internal auditors 41.8% of the respondents strongly agree and the rest 58.1% of them also agree. This clearly showed that high turnover of internal auditors is the main problem affecting internal audit activities in this organization.

According to IIA professional standards, internal auditors should be properly trained to fulfill their responsibilities and should maintain their professional competence through an appropriate ongoing development. Is there lack of continuous training for internal auditors? This is the other question presented to internal auditors. 34.8%, 55.8% and 9.3% of the respondents strongly agree, agree and neutral on this point, (table 24). This response indicates that internal auditors of this organization not users of the chance of continuous training in order to develop their technical proficiency.

As shown in the table 24, concerning lack of budget, the respondents preferred 27.9 % and 58.1 % strongly agree and agree respectively to the presence of this factor. Only the rest 13.9% of the internal auditors have no comment. According to the respondents lack of budget is one of the challenges influencing internal audit activities.

**Table 25: Responses of finance heads concerning major challenges**

Description	Types of Responses											
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Inadequate support of top management			6	50	5	41.6	1	8.4			12	100
Lack of skilled manpower	10	83.3	2	16.7							12	100
Lack of clear policies and procedures					2	16.7	10	83.3			12	100
High turnover of internal auditors	8	66.7	4	33.3							12	100
Lack of continuous training for internal auditors			8	66.7	4	33.3					12	100
Lack of budget			4	33.3	1	8.4	7	58.3			12	100

**Source: Field survey, 2025**

As shown as table 25, 50.1% of finance heads agree and 41.6 % of them have no comment about inadequate support of top management. Only the rest 8.4 % of finance heads disagree. This implies that majority of finance managers believe inadequate support of top management is one of the challenges influencing internal audit activities

As shown table 25, concerning lack of skilled manpower, 83.3% and 16.7% of the respondents strongly agree and agree respectively. This response clearly indicates that the finance process owners have agreement with internal auditors in the case of lack of skilled manpower is one of the challenges affect internal auditors' activities.

Lack of clear policies and procedures is the other point responded by the finance core process owners. 16.7% of the managers preferred neutral and the rest 83.3% of them also disagree to this point, (table 25). This showed that most of the finance heads believe that there are clear policies and procedures related with internal audit activities in Bole Sub City Administration.

66.7% of the finance managers strongly agree and the rest 33.3% of them also agree in the case of high turnover of internal auditors, (table 25). This response is exactly the same to the internal auditors'

response. Therefore it showed that high turnover of internal auditors is one of the factor influences internal auditors' activities.

As shown in table 25, 66.7% and 33.3% of the respondents preferred agree and neutral respectively related to the factor lack of continuous training for internal auditors. The response of finance core process owners indicated that most finance managers have not any idea about the presence of this problem.

Concerning lack of budget 33.3% of the finance core process owners preferred agree and 8.4% of them have no comment. The rest 58.3 % of the respondents also disagree to this point, (table, 25). This implies that the majority of finance managers don't believe that lack of budget is the whole internal audit departments' problem.

The response of the top manager related with major challenges faced by internal auditors to discharge their responsibilities is internal audit sub process is doing well to discharge its responsibilities by supporting management and make its assurance and consulting activities but there are some challenges such as failure to get necessary documents and evidences from auditees because of their negative attitude for internal auditors; especially in the district level there are many problems such as lack of enough salary and incentives, lack of office, lack of office materials, most district audit offices not fully organized and structured and soon.

## CHAPTER FIVE

### SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The previous chapter presented the results and analysis of the study. This chapter presents summary of major findings, conclusions and recommendations. The first section deals with summary of major findings and the second section presents conclusions based on the major findings and the third section presents some recommendations suggested as a solution to problems that have been identified in the study.

#### 5.1 Summary of Major Findings

The study examined internal audit practice in Bole Sub City Administration and to identify the main problems affect internal auditors' activities to assist the management for the achievement of the organizational objectives.

According to the responses of internal auditors and finance core process owners as well as interview of top manager of the sub city the researcher find out some findings presented below.

- Almost all employees have not Certificate of certified internal auditor (CIA)
- There are incomplete work places both at head office..
- The majority of finance heads not accepted the implementation of operational audit by the internal auditors.
- Majority of internal auditors and finance heads believe investigation of fraud is not exercised by the internal auditors. The top manager response is the same to internal auditors and finance managers for this issue.
- Most internal auditors and finance heads believe that accounting systems and internal controls and reviewing the means of safeguarding assets and verifying the existence of such assets, are not fully covered by the internal auditors audit scope in BSCA.
- According to majority of internal auditors' response the audit departments properly evaluate the efficiency and effectiveness of internal control system of the organization but the finance core process owners' response concerning this point is negative.

- Most of the internal auditors believe that their strategic and annual plan prepare based on IIA standards. In the contrary, the finance heads response regards to strategic and annual plan preparation is negative relative to internal auditors' response.
- Most of the time Internal Audit Sub Process doesn't communicate its plan to auditees.
- Majority of the finance managers said that there is no assistance from the internal auditors. Most internal auditors and finance heads believe competency and objectivity principles are not properly applicable by internal auditors of the BSCA.
- The majority of internal auditors not accepted the existence of independence.
- Majority of internal auditors and finance managers also believe most of the time internal auditors don't get necessary support from top management and BOFED to improve their independence.
- Most internal auditors have not awareness about finance administration proclamation 16/2002 help them to exercise independence and prevent from any suffer because of their activities.
- Lack of technical competence of the internal auditors, lack of understanding of management goals, ineffective communication between internal auditors and the auditees, are the main obstacles of successful audit results.
- Majority of internal auditors and finance heads don't accept top management commitment to take corrective action on audit findings and recommendations.
- Majority of internal auditors and finance heads believe inadequate support of management, lack of skilled manpower, high turnover of internal auditors, lack of continuous training, lack of budget are the main challenges influencing internal audit activities.

## **5.2. Conclusions**

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Internal audit plays a vital role in evaluating the internal control system and contribute to the ongoing effectiveness of the organization.

More or less In Bole Sub City internal audit works well to contribute for the effectiveness of the organization. On the basis of the major findings presented the following conclusions are drawn.

The study showed that internal audit required manpower not fully covered by the necessary manpower in order to implement internal audit function properly. Almost all internal auditors have not CIA. Therefore they are not users of IIA's membership benefits.

The study revealed that there is a problem in the accomplishment of operational and investigation of fraud types of audits.

The study also revealed that 'verifying accounting systems and internal controls, and reviewing the means of safeguarding assets' are not fully covered by the internal auditors audit scope. The study also showed that there is a problem in the evaluation of internal control by the internal auditors in Bole Sub City Administration

The study also showed that some problems related with internal audit professional Standards, some of these are; internal auditors of this organization do not always prepare strategic and annual plan based on IIA standards, there is a problem regarding communication of the plan in the internal audit department.

The other problem related to the practice of professional standards is most of the time internal auditors of the Bole Sub City Administration don't give consulting activity to improve the operations of the finance sector, their focus mainly on financial audit after closing the accounts. (End of fiscal year). The study also revealed that principles of objectivity and competency are not properly applicable by internal auditors of the Bole Sub City Administration.

With regards to internal auditors' independence, the study revealed that internal auditors of BSCA are not fully independent while performing their work; BOFED is not given enough support to them for strengthening their independency; top management's continuous assistance is low related to internal auditors' independence. The study also showed that most internal auditors have not awareness about the finance Administration proclamation 16/2009 helps them to exercise independence in their audit activities.

The study showed that major challenges influence internal audit activities are: inadequate support of management, lack of skilled manpower, high turnover of internal auditors, lack of continuous training, lack of budget, lack of cooperation from auditee departments to provide necessary documents for the audit engagements because of adverse attitude for the work of internal auditors. Especially in the

district level there are problems such as lack of enough salary and incentives, lack of office, lack of office materials, lack of full organized and structured office ,lack of transport for field audit work and soon.

### **5.3. Recommendations**

In the light of the entire results obtained and conclusions drawn, the following recommendation has been made.

- Internal auditors become a member of the IIA they receive support and guidance on every aspect of internal auditing. BOFED has to assist the internal auditors to take professional certification and be a member ship of IIA.
- An operational audit involves obtaining and evaluating evidence about the efficiency and effectiveness of an entity's operating activities in relation to specified objectives. Internal audit department and management should be given focus to properly accomplishment of this type of audit and should be included in the strategic plan.
- Internal auditors should provide an independent opinion on the effectiveness of the fraud prevention and detection processes put in place to reduce the risk of fraud. The researcher suggests that internal auditors department of BSCA should include investigation of fraud in its strategic and annual plan as one type of audit.
- The scope of internal audit is set by management and it can be widely. Top management should give focus for the broadening of audit scope areas which are not covered by the internal auditors. The study also recommended that internal audit sub process should report and comment on the effectiveness of internal control system and suggest ways and means to improve those systems.
- In order to assist the management properly and aligned with international best practices Bole Sub City Administration internal audit should prepare its strategic, annual and individual plan based on IIA standards.
- To facilitate the activities and enhancing transparency the audit department should be communicated its plan to auditees.
- Objectivity is an independent mental activity which internal auditors should maintain in performing audits. Therefore internal auditors of this organization should be aware of objectivity principle and properly implemented.

- Internal auditors should apply the knowledge, skills and experience needed in the performance of internal auditing services. The researcher suggested that internal auditors should be aware of competency principle and upgrade themselves by the necessary knowledge and experience.
- In order to get the benefits of risk based auditing the top management as well as internal audit should design risk management frame work and also it is better to increase the amount of budget and time devoted to risk assessment.
- BOFED should conduct effective training to build the capacity of internal auditors and creating awareness for management and other employees on risk based approach.
- The sub city' top management and internal audit sub process organized and work together in order to improve the internal auditors' independence.
- Effective and strong intervention of BOFED is required to support internal audit and creating strong and self-confidential internal auditors.
- Internal auditors of this organization should be aware of finance Administration proclamation 16/2009 given to legal protection for their work.
- Management should use the outcome of internal audit to make the organization more productive and to provide better asset protection. Disciplinary and legal actions against those who fail to comply with the rules and regulations should be strengthened.
- The selection and training of staff are crucial for productive and high quality audit results. The researcher also suggests that the management should be committed to recruit and train professionals.
- Most managers strive for high quality service, impressive results and great personnel morale to meet a successful organization. Internal auditors should take the time to understand management wants by participating managerial meeting and reading different books related to management.
- In order to enhance effective communication with auditees internal audit sub process should try to create opportunity to meet the officials of auditee departments by arranging regular meeting time, and communicating the audit plan to take feedback from auditee departments.

- By its nature audit need cooperation and collaboration of different stakeholders to meet its objective. For effective audit work, auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee.
- In the Sub City Administration there is less support given for the auditors. So that it is advisable to responsible top management should give effective support for the internal audit this helps in removing the existing negative attitude towards internal audit.
- The assignment of competent and sufficient number of employees is very important to perform tasks efficiently and effectively. Therefore it is advisable for the organization to fulfill the required manpower to meet its objectives as desired.
- Regular training program should be emphasized by the management so as to update the existing employees' knowledge and skills.
- At the district level, internal audit not fully organized and structured and there is lack of enough salary and incentives. Therefore the study suggests that head office internal auditors should give strong support and technical assistance aligned with districts management. Additionally in order to encourage those well experienced and qualified workers the management could establish the system of getting attractive salary and other different incentives.

### **5.3.1 Recommendation for Further Research**

This study is limited assessment of internal audit practices and its challenges in the case of Bole Sub City Administration. Therefore, to achieve better results, detail analysis might be conducted by adopting quantitative models for analyzing the data.

The study can be expanded by including all sub cities with in Addis Ababa which can help to identify the major challenges that affect internal audit activities in city administration.

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## APPENDIX I

### Questionnaires For internal auditors and their heads (HIA)

**Dear Respondent:**

The main purpose of this questionnaire is to collect necessary data for the study on the factors that could be negatively influencing the role of internal audit activity in the sub city and whereas. The questionnaire has been designed to get information for purely academic purpose and hence would not affect any one in any case. The information collected through the questions is kept confidential. To this end the outcome of this study will highly depend on responsible, sincere and timely response.

Therefore you are kindly requested to fill the questionnaires as per the instruction carefully and responsively. Thank You in advance for your time and effort.

**Instructions:**

- ✓ You don't need to write your name.
- ✓ For choose questions ,please indicate your answer by putting a tick mark ( ✓ )
- ✓ For the rest questions please provide your answer in writing. (even in Amharic language, if necessary)

For further comments & information you may contact us by this Email address: - [kinfeaklilu77@gmail.com](mailto:kinfeaklilu77@gmail.com)

## Questions related to personal information

**Age:** 21-30  31-39  40-49  50 and above

**1. Sex:** Male  Female

**2. Educational level:**

12 complete  Diploma  Certificate

Degree  MSc. &above

**3. years of work experience in internal auditing :**

1.-5 years  6-10 years  11-15 years

16-20 years  20 years and above

**4. Qualification :** Accounting and Finance, Marketing Management, Management Economics,

If other please specify \_\_\_\_\_

**5. Do you have a certification of :** CIA (certificate of internal auditor)

CPA (certified external auditor)

Other-----

**6. The respondent's position** \_\_\_\_\_

### Functions of internal audit:

	Description	Type of responses				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
7. What are the main functions of Internal Audit in your organization?	Financial statement audit					
	Operational audit					
	Compliance audit					
	Investigation of fraud					
8. What are the areas cover in your audit scope?	Reviewing the reliability and integrity of financial and operating information and detailed testing of transactions and balances.					
	Reviewing accounting systems and internal control					
	Reviewing the systems established to ensure compliance with those policies, Plans, procedures, laws and regulations					
	Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets.					
9. The internal audit sub process evaluates the efficiency and effectiveness of internal control system of the organization?						
10. What are major techniques the internal audit sub process uses to collect audit evidences	Observation					
	Confirmation					
	Inquiry					
	Documentation					
	Physical Examination					

### Internal Audit professional Standards:

	Description	Type of responses				
		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
12. Does internal audit practices in Bole Sub-City follow excepted internal audit professional standards						
13. Internal audit sub process prepare its strategic and annual plan based on the IIA standards						
14. Does internal audit practices in Bole Sub-City follow internal audit principals of ethics	Integrity					
	Confidentiality					
	Responsibility					
	Competency					

**15. When do you communicate the internal audit plans for audits?**

- At the time of planning-----
- During approval of the plan -----
- After approval of the plan-----
- Don't communicate the plan-----

### Independence:-

Description	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
16. Internal audit sub process conduct its activity <b>independently</b>					
17. To what extent the current role of <b>BOFED</b> in relation to supporting and creating independence of internal auditors in your organization					
18. To what extent the role of <b>Top management</b> in relation to supporting and creating independence of internal auditors in your organization					
19. Do you agree that the finance administration proclamation 16/2002 will help the internal auditors <b>Independence</b> in their activities					

### Major challenges faced by the internal auditors:

20. What factors influence the internal auditors their activities	Inadequate support of management					
	Lack of skilled man power					
	Lack of clear policies and procedures					
	High turnover of internal auditors					
	Lack of continuous training for internal auditors					

## **Questionnaires for Finance core Process Heads at Sub city and District level**

### **Dear Respondent:**

The main purpose of this questionnaire is to collect necessary data for the study on the factors that could be negatively influencing the role of internal audit activity in the sub city and selected whereas. The questionnaire has been designed to get information for purely academic purpose and hence would not affect any one in any case. The information collected through the questions is kept confidential. To this end the outcome of this study will highly depend on responsible, sincere and timely response.

Therefore you are kindly requested to fill the questionnaires as per the instruction carefully and responsively. Thank You in advance for your time and effort.

### **Instructions:**

- ✓ You don't need to write your name.
- ✓ For choose questions ,please indicate your answer by putting a tick mark ( ✓ )

For the rest questions please provide your answer in writing. (Even in Amharic language, if necessary)

For further comments & information you may contact us by this Email address: -  
kinfeaklilu77@gmail.com

## Questions related to personal information

1. **Age:** 21-30  31-39  40-49  50 and above

2. **Sex:** Male  Female

3. **Educational level:**

12 complete  Diploma  Certificate

Degree  MSc. &above

4. **years of work experience :**

1-5 years  6-10 years  11-15 years

16-20 ears  20 years and above

5. **Qualification:** Accounting and Finance, Marketing Management, Management Economics, If other please specify \_\_\_\_\_

6. **The respondent's position** \_\_\_\_\_

### Functions of internal audit:

7. What are the main functions of Internal Audit in your organization?	Description	Type of responses				
		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
7. What are the main functions of Internal Audit in your organization?	Financial statement audit					
	Operational audit					
	Compliance audit					
	Investigation of fraud					
8. What are the areas cover in audit scope?	Reviewing the reliability and integrity of financial and operating information and detailed testing of transactions and balances					
	Reviewing accounting systems and internal control					
	Reviewing the systems established to ensure compliance with those policies, Plans, procedures, laws and regulations					
	Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets.					
9. The internal audit sub process evaluates the efficiency and effectiveness of internal control system of the organization?						

**Internal Audit professional Standards:**

Description	Description	Type of responses				
		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
10. Internal audit practices in Bole Sub-City follow excepted internal audit standard and procedures						
11. Internal audit sub process prepare its strategic and annual plan based on the IIA standards						
12. Does internal audit practices in Bole Sub-City follow internal audit principals of ethics	Integrity					
	Confidentiality					
	Responsibility					
	Competency					

**13. When do communicate the internal audit sub process its plans to your section (finance)?**

- At the time of planning -----
- During approval of the plan -----
- After approval of the plan -----
- Don't communicated the plan -----

**14. What assistances do you receive from internal audit department? -----**

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### Independence:

Description	Type of responses				
	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
15. Internal audit sub process conduct its activity independently					
16. The current role of BOFED is high in relation to supporting and creating independence of internal auditors in your organization					
17. Do you agree that the finance administration proclamation 16/2002 will help the internal auditors Independence in their activities					
18. The current role of Top management relation to supporting and creating independence of internal auditors in your organization					

### Major challenges faced by the internal auditors

	Description	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
19. What factors influence the internal auditors activities	Inadequate support of management					
	Lack of skilled man power					
	Lack of clear policies and procedures					
	High turnover of internal auditors					
	Lack of continuous training for internal auditors					

## **APPENDIX II**

### **Interview Questions for Top Management**

1. What are the most focus areas of internal audit in your organization(Financial audit, operational audit, fraud investigation., Compliance audit)
2. Is there adequate internal control evaluation in Bole Sub-City Administration internal audit?
3. Does the internal audit sub process conduct its activities independently?
4. Do you think that audit findings and results used for the top management decision making?
5. What are the main obstacles of successful audit results?
6. What are the main challenges faced with internal audit process to discharge its responsibilities?