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**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING & FINANCE**  
**Project audit Practices and its Challenges in Addis**  
**Ababa Construction Bureau**

**A Research paper Submitted to Department of Accounting and Finance  
Addis Ababa University in Partial Fulfillment of the Requirements for  
Degree of Master of Science in Accounting & Auditing**

**By**

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**June, 2019**

**Addis Ababa, Ethiopia**

## **Declaration**

**I, undersigned, declare that this project paper is my original work and has not been presented for a degree in any university, and the sources of materials used in this study have been duly acknowledged.**

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**Addis Ababa**

**Ethiopia**

**June, 2019**

## Table of Contents

Title	Page
<b>Declaration</b> .....	<b>2</b>
<b>Tables</b> .....	<b>iii</b>
<b>Acknowledgements</b> .....	<b>v</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>vi</b>
<i>Abstract</i> .....	<b>vii</b>
<b>Chapter One</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>1</b>
1.1. Background of the Addis Ababa Construction Bureau.....	5
1.2 Statement of the Problem.....	6
1.3 Objective of the study: .....	8
1.3.1. The general objective.....	8
1.3.2 Specific Objectives .....	8
<b>1.4 Significance of the study</b> .....	8
1.5 Scope of the study.....	9
1.6 Organization of the study.....	9
1.7. Operational Definition of Variables.....	9
<b>CHAPTER TWO- Literature Review</b> .....	<b>11</b>
<b>Introduction</b> .....	<b>11</b>
2.1 Theoretical Literature Review .....	11
2.1.1 Basic Concept of Auditing.....	11
2.1.2 Definition of Auditing.....	12
2.1.3 Historical Development of Auditing.....	13
2.1.4 Scope of Internal Audit.....	15
2.1.5 Importance of Auditing.....	16
2.1.6 Internal Audit vs. External Audit.....	16
2.1.7 Audit Quality .....	17
2.1.8 Empirical literature Review on Determinants of audit quality .....	18
2.1.8.1 Experience.....	19

2.1.8.2 Training.....	20
2.1.8.3 Independence .....	21
2.1.8.4 Size of Audit Staff .....	22
2.2 Research Gap Analysis .....	22
2.3. Chapter Summary .....	22
<b>CHAPTER THREE.....</b>	<b>24</b>
<b>RESEARCH DESIGN AND METHODOLOGY .....</b>	<b>24</b>
<b>Introduction.....</b>	<b>24</b>
3.1 Research Design.....	24
3.2 Target Population and Sample size .....	25
3.2.1 Target Population.....	25
3.2.2 Sample size .....	25
3.3 Methods of Data Collection .....	26
3.4 Methods of Data Analysis.....	26
<b>CHAPTER FOUR.....</b>	<b>28</b>
<b>Data Analysis and Interpretation .....</b>	<b>28</b>
<b>Introduction.....</b>	<b>28</b>
4.1 Response Rate.....	28
4.2 Demographic Characteristics of Respondents .....	29
4.2.1 Independence .....	31
4.2.2 Competency .....	34
4.2.3 Training.....	36
<b>CHAPTER FIVE .....</b>	<b>39</b>
<b>Conclusion and Recommendation.....</b>	<b>39</b>
<b>Introduction.....</b>	<b>39</b>
5.1 Conclusion .....	39
5.2. Recommendation .....	40
<b>REFERENCES.....</b>	<b>41</b>
<b>Appendix I.....</b>	<b>44</b>
<b>Appendix II.....</b>	<b>48</b>

## Tables

	<b>Page</b>
TABLE 4.1: Demographic characteristics of respondents.....	28
TABLE 4.2: Independence .....	30
TABLE 4.3: Competency .....	33
TABLE 4.4: Training .....	35

**Addis Ababa University**

**School of Graduate Studies**

**As members of the examining Board of the Final MSc Open Defense, we certify that we have read and evaluated the project prepared by Nuru Mustefa, entitled: Project audit Practices and its Challenges in Addis Ababa Construction Bureau, and recommend that it is accepted as fulfilling the requirement for the degree of MSc.**

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## **LIST OF ABBREVIATIONS**

AICPA: American Institute of Certified public Accountant

Audi tee: Audited public Sector

COSO: Committee of Sponsoring Organizations of the tread way Commission

E.C.: Ethiopian calendar

GAAS: Generally Accepted Auditing Standards.

IA: Internal Auditor

IAS: Internal Audi Services

INTOSAI: International Organization of Supreme Audit Institutes

IASB: International Accounting and Standards board

IIA: Institute of Internal Auditor

MOFED: Ministry of Finance and Economy Development

OECD: Organization for Economic Co-operation and Development

PMBOK: Project Management Book of Knowledge

SEC: Security exchange Commission

SPSS: Statistical Package for Social Science

## *Abstract*

*Project audit is important as an essential internal assurance mechanism in controlling fraud in budgetary public construction sectors. The purpose of this study is to investigate Project audit Practices and it's Challenges in Addis Ababa Construction Bureau. To assess the Practices and it's Challenges: Experience of project auditors, Independence, Training, of project auditor. The study was conducted based on the data gathered from the project auditors, Directorate of constructions team leaders, CEO, contractors' consultants and managers sub cities construction head offices, head of the selected Addis Ababa city construction public sector offices. To that effect extensive survey of theoretical and empirical literature is made to support the paper with applicable and worth full ideas. Primary data is also being collected from the study area used close ended questionnaires, interviews and secondary data by referring to documents and reports of the bureau. The study was conducted based on explanatory study design .The study adopted both qualitative and quantitative research methods. The study used purposive sampling method and censes covered the offices of selected workers and public sectors. Thus the study is argue that the ineffectiveness and inefficiency in the practice of project audit in the Construction Bureau of Addis Ababa is due to the problem in its independency to report its finding to an appropriate body, mismatch between the works and its staffs, inadequate training of audit experts in the issue of project audit and lack of adequate attention and support from the bureau management. Thus, project audit as an important department confronts a serious challenge to reach as a tool for creation of good governance by exposing fraud practice in the area as well as identifying control deficiencies. Hence, the study would suggest the need of establishing accountability and giving a necessary support to the project audit both from the bureau and the City Government of Addis Ababa.*

**Keywords:** *Project Audit, Internal Control Effectiveness; Determinants of project Audit Effectiveness*



# Chapter One

## Introduction

Many construction projects, both publicly and privately funded, require that a project audit be performed by an independent party. The audit not only tests the accuracy of invoices and other charges incurred against the construction project, but may include are view of processes used in project management and project cost/schedule controls, and a comparison of those processes to industry best practices. Thus, the audit function is an essential project control tool (Alexia, 2007).

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person (Arenas, et.al 2012)

“Project” is defined in deferent terms by different people and institutions; however, for better clarification and understanding of a project, the following two common definitions are discussed below.

*“A project is a complex, non-routine, one time effort limited by time, budget, resources and performance specifications designed to meet customer needs. The major characteristic of a project are as follows:*

- 1. An established objective.*
- 2. A defined life span with a beginning and an end*
- 3. Usually, the involvement of several departments and professionals.*
- 4. Typically, doing something that has never been done before.*
- 5. Specific time, cost, and performance requirements.” (Yoseph, 2017).*

Auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate. (Yewubnesh, 2018).

Project Audit is a tool, which attempts to add value in proper use of resources by identifying the inadequacies in project works, and suggest remedial action for immediate action and future correction. Therefore, focus of the audit exercise is to

ensure that accountability exists at each and every stage of public works and projects. (Yoseph, 2017).

Currently, auditing can be defined as the process by which a competent, independent person, accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria (MOFED, 2005).

The accounts maintained truly represent facts and that the expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an auditor." (Dicksee, 2016)

A project is temporary because every project has a definite beginning and a definite end. In other words, a project is a one-time effort that produces a specific result, and it is completed when its objectives are achieved. A project has to be performed and completed within specified cost, schedule, and quality, because at the start of project an agreed amount of labor, equipment, materials, and time are allocated to the project, which are highlighted as the primary functions of project management (Yoseph, 2017). Up on the above explanations, Project can be defined as: a unique process, consisting of a set of coordinated and controlled activities with start and finish dates, undertaken to achieve the desired objective, conforming to specific requirements, including the constraints of time, cost and resources.

Public sector auditing is crucial that it maintain the right resources for the right amount of time with an appropriately broad mandate to achieve the organization's governance objectives. The public sector audit activity's mandate should be sufficiently broad to enable it to respond to the full scope of the entity's activities. Although auditors may be able to add value to any segment of the organization for which they can provide independent, objective assurance at a minimum, every public sector entity requires some form of independent audit activity that has authority to evaluate the full range of public sector activities (Goodson, Jacques, Kenneth, Lapointe & Mory, 2012).

Auditing has significant role in the management of most organizations. It has become Increasing liveried, both in scope and objective to assist all levels of management in

Assuring internal and external constituencies that financial resources are being properly

Managed and accounted for. The need for auditing, either externally or internal is increasing from time to time because it enables organizations to manage their resources properly.

To bring efficiency and effectiveness in economic activity the performance of the public sector management have a duty to frequently measure and appraise to take remedial actions if problems, for example fraud, encountered. There are many irregularities leading to public objection and there is increasing fraud in government activities resulting from an insufficient control of public finance and implementation mostly in African content like Ethiopia. Public sectors fail in attaining their objectives thereby leading to fail of confidence in internal and external activities in the economy. According to Abidin, Ali ,Ghazali, and Rahim, (2014) one of the main factors that caused this is fraud which has serious adverse effect on public sectors and has damaging consequences for the individuals involved, and the entire community.

Project Auditors assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weakness in such system and making recommendations toward their improvement. It is indisputable that the existence of project auditor a means of controlling the incidence of errors, irregularities and frauds, but the question to be answered is the extent to which they exercise tasks to play their role. If the audit work is done by competent, audit is unrestricted and independent evaluation.

Audit quality is defined as the probability that the auditor will both discover and report a breach in the client's accounting system (DeAngelo, 1981).

A quality audit is a process by which you review and evaluate an element of your business to ensure that you're meeting certain standards. The standards vary-you can set them or you can follow standards set by your industry. A quality audit can apply to various aspects of a business, but a few types stand out. You can perform a quality audit of your inventory or service to assure that it's acceptable for consumption by the public. This is particularly important in the case of a product or service that could pose

a threat to public safety. Some business owners perform quality audits on employees, or rather the way employees perform. This is particularly important in an atmosphere where workers must interact directly with customers. The business may also perform quality audits on management, which would require a third-party evaluator in the case of a company managed by the public. Finally, if the company has to maintain information in databases, you can also perform data quality audits (Balle, 2016). (Yewubnesh, 2018).

Regularity and compliance audits, performance audit (project audit) are a recent expansion in the scope of auditing. According to the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics (1998), performance audit is an audit of economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

Audit, in its inclusive definition, is the evolution of individuals', organizations', Systems' projects', service and productions' performance.

According to project audit paper presented (2017), duties of project auditors do performance audit of constructions of buildings, designs according to its standards doing an audit, buildings are worked according to its standards, doing project financial audit the price of construction (biding price) and agreement price should be the same in doing of this unnecessary costs will be eliminated. Made follow up and control mechanizes if there is agape take an action.

Performing quality audits are important for a few key reasons. For one, it ensures that the business is offering a value to the public. For instance, building a high-quality construction or employing high-quality customer service personnel can fuel future sales. It's also useful for advertising the business-informing the public that the company is committed to quality standards and performs these regular audits may help increase consumer (stack holder) confidence in the business.

Finally, regular qualities audits help protect the business from issues that could arise from construct poor quality constructions (Balle, 2016).

Regasa,(2016). Found that, there is an increasing demand on a better public accountability across nations; the role of performance audit (project audit) in government sector is becoming popular Pollitt, (2003). The Organizations for Economic Co-operation and Development (OECD) countries have been aware of this need since they have reformed their public management to be more transparent, accountable and provide better service OECD countries symposium in Paris on (6-7 June 1995).

There are different reasons that affect the quality of both private and public auditing systems. This study focuses on the determinants of project audit quality in the public organizations, especially in project the Addis Ababa Construction Bureau audit Directorate. Among several factors, this study focuses on some of them: Independence, competency of project auditors and training of project auditors.

This chapter is organized by ten sections starting from the introduction part and the remaining is present as follows: section 1.1. Background of the Addis Ababa Construction Bureau 1.2 shows the statement of the problems; section 1.3 objectives of the study; section 1.3.1 general objective 1.3.2 Specific Objectives 1.4 Significance of the study 1.5 Organization of the study 1.6. Operational Definition of Variables

## **1.1. Background of the Addis Ababa Construction Bureau**

According to proclamation No 46/2015, Construction Bureau provides appropriate support towards fulfilling the capacity gap of the construction industry based on study; searching and improving new technology.

Addis Ababa city administration has ten (10) subs-cities-1) Addis Ketema, 2) Akakai-Quality, 3) Arada, 4) Bole, 5) Gullele, 6) Kirkose, 7) Kolfe Keraniyo, 8) Lideta, 9) Nifssilk- Lafeto and 10) Yeka sub-cities. In these ten sub-cities there are one Hundred nineteen Weredas (kebeles). The structure of construction Bureau has from city

To Weredas, but the structure of project audit found only at the bureau level.

Proclamation No- 46/2015 provide for the Re-amendment of the Addis City Government gives right to the Construction Bureau to .Perform, coordinate and direct

the auction and progress of the construction together with the owner of the construction, because construction contracts prepare in accordance with construction law, follow and supervise. The establishment of control system that enables to ensure any construction work under taken by the city government is carried out in accordance with the quality, time and cost specified in the contract; superiorly direct and coordinate the Public Participation and Development Agency. Not with standing implementation by the concerned body of the Federal Government, provide appropriate support towards fulfilling the capacity gap of the construction industry based on study; cause the performance of searching and improving new alternative technologies that help to build capacity; coordinate same and ensure that such technologies are utilized(Proclamation No, 46/2015).

According to project audit establishment's paper presented, 2017duties of project auditors do performance audit of constructions of buildings, designs according to its standards doing an audit, buildings are worked according to its standards, doing project financial audit the price of construction (biding price) and agreement price should be the same in doing of this unnecessary costs will be eliminated. Made follow up and control mechanizes if there is agape take an action.

## **1.2 Statement of the Problem**

It's known that the audit practice should be performed at highest quality. Auditees whether they are government, private or non- government organizations all need a high standard quality audit.

As Institute of Internal Auditors (IIA, 1991), internal auditing is “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”. This theory works the same to project audit. By measuring and evaluating the effectiveness of organizational controls, internal auditing (project audit), itself, is an important managerial control device (Carmichael et al., 1996), which is directly linked to the organizational structure and the general rules of the business (CAI, 1997).

To achieve their objective, the Addis Ababa Construction Bureau accomplishes different activities. Project audit is the employees of Construction Bureau, public office, is expected to work independently and objectively to enhance high quality of

public services audit. Some of the studies which have been investigated by various researchers were conducted in countries such as: Indonesia (EkoSuyono,2012) about the Determinant factors affecting the Audit Quality based on Indonesian perspective and the is positive relationship of audit firm size, with audit quality; (Kaldir, 2015) based results show that: independence, experience and accountability were affect audit quality positively; Jordan (Abdulhadi, Al-Khaddash, Al-Nawas,Husam,Rana and Ramadan,2013) concerning the factors affecting the quality of Auditing in the case of Jordanian Commercial Banks.

The results indicate a positive and significant correlation between audit quality and audit efficiency, Pakistan (Masood, Afzal, 2016) with the findings indicates a positive and significant correlation between audit quality and auditee.

While studies has been conducted on audit quality in Ethiopia, such as: (Bayou, 2017) on Auditors Perception of Audit Quality in Ethiopia, as the results from the study indicate that there on audit quality (kaldir, 2015) “Internal audit practice: the case of Somali Regional Government Public sector offices, Ethiopia”. (Bethitina, 2015) and (Bogale, 2016),(yewubnesh,2018) based on the external audit quality in Manufacturing Share Companies, with the result of negative insignificance between the audit firm size and audit quality; the result shows that the relationship for audit firm size, was found to be statistically insignificant; (Ejigsew, 2016), on the Impact of Provision of NAS to Audit Clients on Auditors Independency and Audit Quality, the result shows that provision of NAS does not negatively affects auditor independency and audit quality;(Solomon, 2016), on Factors affecting quality of External Auditing in the case of Commercial bank of Ethiopia the result indicates that audit quality has a positive relationship with the bank size and negative with audit fee paid by the bank.

As mentioned above, all of the above mentioned studies are very specific focusing only on the quality of external auditing and internal auditing project audit was excluded from their studies and others were limited on private sectors and banks and they are not focused on public sectors especially the economy sector (constructions), and the remaining also conducted only by using single independent variable.

Although there were several studies concerning the external audit and internal audit quality in Ethiopia, as the researcher knowledge, there was no study conducted based

on Project audits public sectors audit quality in Ethiopia. So, this study aims filling these gaps conducted on the challenges of Project audits by focusing on the construction sectors, these sectors are selected because of their high budget resource use

### **1.3 Objective of the study:**

#### **1.3.1. The general objective**

The general objective of this study would be to explain by doing of assessments on the Project audit Practices and Challenges in Addis Ababa City Construction Bureau.

#### **1.3.2 Specific Objectives**

In order to achieve the general objective, this study is focused on the following specific objectives:

1. To assess project auditors experience on project audit quality.
2. To assess the independence, competence of project auditors.
3. To assess the outcome of training of project audit quality.

To evaluate the project audit quality, to investigate the independence and objectivity of project audit in the government sector offices, as an auditor and to recommend alternative solutions for the actual problems identified by this research.

### **1.4 Significance of the study**

The result of this research project was: to explain the Project audit Practices and Challenges in Addis Ababa Construction Bureau, in order to achieve 'their objectives successfully and help to make decision. It also helpful to make the auditors to focus more on positive effect of independent variables to enhance the quality of project audit. In addition, this research should be important for the empirical evidences for the public sector in Addis Ababa Construction Bureau project audit practice and its challenge examine and practice their procedures, and for the future researchers also important to develop a conceptual literature development.

## **1.5 Scope of the study**

Although, there are other factors which affect the practice, challenges and qualities of project audit this study was focused on only explaining the practice and challenges of project audit from the perspective of auditors' experience, independence, competence, training and the size of audit staff in Addis Ababa Construction Bureau. It doesn't consider the external audit offices and private sectors. The study is also bounded only by the staff of project auditors it doesn't include other departments in the organization. The main issues addressed in this study include positive relationships of between experience of project auditors, independence, competence, training and the size of audit staff with project audit challenge of Addis Ababa Construction Bureau.

## **1.6 Organization of the study**

This study is organized into five chapters. The first chapter consists of the introductory part which contains background of the organizations, statement of the problem, objective of the study, significance of the study, scope of the study, and organization of the study. Chapter two begins with the introduction part which consists of theoretical and empirical literature review. Chapter three starts with the introduction part and it covers the research design, followed by target population and sample size, methods of data collection, measurement of variables, and methods of data analysis. Chapter four presents the analysis and interpretation of data, beginning from the introduction part. The analysis results of demographic characteristics are presented followed by the responses about the project audit quality (practices and challenges). The data analysis and data results and interpretation include in this chapter. In the fifth chapter conclusions, recommendations are presented respectively.

## **1.7. Operational Definition of Variables**

**Project:** A project is a complex, non-routine, and one time effort limited by time, budget, resources and performance

**Building:** A permanent or temporary construction used for the purpose of Education, office, Hall, shed Training center under city of Addis Ababa Administrative region Bureaus;

**Competency:** —is authorized to judge as well as —has the right to speak

**Construction:** means the construction of new building projects under the Addis Ababa Administrative region Bureaus;

**Independency:** freedom from control or influence of another or others, the condition of being free; the power to act or speak or think without externally imposed restraints.

**Owner:** A public organization for whom the construction project is being undertakes.

**Contractor:** A natural or juridical person under contract with an owner to construct the building construction projects.

**Consultant:** The person or entity appointed by the owner to establish and agree all budgets, and implement and manage the necessary cost control on the project.

**Effectiveness of project Audit:** accomplishment of projects on time and according to its budget without compromise of its quality.

**Performance:** The accomplishment of a given building construction projects against the contractual cost, time and quality standards.

## **CHAPTER TWO- Literature Review**

### **Introduction**

This chapter is consisting the four broad sections of the study: section 2.1.Theoretical Literature review; 2.1.1 Basic Concept of Auditing; 2.1.2 Definition of Auditing; 2.1.3 Historical Development of Auditing; 2.1.4; Scope of Internal Audit; 2.1.5 Importance of Auditing 2.1.6 Internal Audit vs. External Audit; 2.1.7 Audit Quality;2.1.8 Empirical literature Review on Determinants of audit quality; 2.1.8.1 Experience; 2.1.8.2 Training; 2.1.8.3 Independence; 2.1.8.4 Size of audit staff section 2.2 Research Gap Analysis; section 2.3 Conceptual frame work for Auditing, followed by section 2.4 Chapter Summary. The chapter mainly gives much attention to what has been said by different authors about the matter discussed under this study. There are some points investigated from different sources regarding the determinants of the project audit quality.

### **2.1 Theoretical Literature Review**

This part provides the readers coming up into prior studies that have been conducted on the quality of audit contributions. It also provides to the reader the important concepts related to our study and also makes the backbone for my research analysis. The aim behind this study is to increase the understandability of the basic concept related to the different determinants of the audit quality.

#### **2.1.1 Basic Concept of Auditing**

Auditing is a multi-dimensional and multi-functional concept in the overall auditing and accounting perspectives.

Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the

effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors, North America, 2018).

Audit is a review of operations and records undertaken within a business by specially assigned staff. It is a post-transaction review to evaluate the correctness of records and the effectiveness of operations on a continuous basis in an organization by the paying staffs. It is useful for participants to have a general understanding of auditing as whole, before they are introduced to auditing as a separate professional field of study.

In a generic sense auditing (external and internal), involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public (MOFED, 2005).

As a concept Audit is distinguished by its scope and the high level of offered services (Drogalas et al., 2006). Often, however, ignorance of administrators undermines the approach and the importance assigned to the modern business economy. This substantiates the greater emphasis attributable to visual evaluation of the strategy as an effective means of fulfillment and achievement of operational objectives. Today, the roles to be played by an effective internal control system are both from the house to prevent omissions and irregularities, and from the standpoint of minimizing adverse effects on economic unit and the surrounding players.

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### **2.1.2 Definition of Auditing**

The word “audit” comes from the Latin word *audire* which means “to hear”. In the Middle Ages, accounts or revenue and expenditure were “heard” by the auditor

(Edward Harris, 2016). This derivation refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 century. But, we know that some type of auditing existed long before 1494 when Luca Pacioli published his principles of double-entry bookkeeping system in Venice. Some current definitions of auditing illustrate the variability in the roles of auditors, while underscoring the fundamental elements of the profession.

“Audit serves an accountability relationship. It is the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities.”(Canadian Comprehensive Audit Foundation, 1991)

According to Beckmerhagen, Berg, Karapetrovic, and Willborn (2004), effective auditing can be described according to reliability of findings, added value, and client satisfaction, although it may be very difficult to measure added value. Few studies have been identified that are related to the perceived quality of auditing activities, including (Elliott, Dawson, &, Deloitte 2007); (Edwards, 2007); and (Arena & Azzone, 2009).

According to Beckmerhagen, Berg, Karapetrovic, and Willborn (2004), effective auditing can be described according to reliability of findings, added value, and client satisfaction, although it may be very difficult to measure added value. Few studies have been identified that are related to the perceived quality of auditing activities, including (Dawson, & Deloitte Edwards, 2007); (Elliott, 2007); and (Arena & Azzone, 2009).

### **2.1.3 Historical Development of Auditing**

"The widening gap between management and action has made it necessary to develop a series of controls by means of which the business may be administered efficiently. The auditors perfects and completes each of these activities by providing on- the scene appraisal of each form of control. There is no known substitute for thus activity" (Walsh, 1963).

Auditing thus came to be financial or non- financial (operational) in nature, pre (interim audit) or post audit, partial or complete audit; investigation or spot check. Whatever its scope of activity, it was a “service to management” on a continuous bases and as such the scope and extent of its function was and is determined by management.

It is normal for any activity-including a control activity such as internal auditing-to comes into being as a result of emerging needs. Although it has ancient roots, internal auditing was not recognized as an important process by many enterprises and their external auditors until the 1930s. His recognition was primarily due to the establishment of the U.S. Securities and Exchange Commission (SEC) in 1934 and changing external audit objectives and techniques at that time. The United States and the rest of the world had just gone through a major economic depression. As a legislative corrective action, the SEC required that enterprises registered with it must provide financial statements certified by independent auditors. This requirement prompted corporations to establish internal auditing departments, the main purpose of which was to assist their independent auditors.

At that time, external financial auditors were focusing on expressing an opinion on the fairness of an enterprise’s financial statements rather than on detecting internal control weaknesses or even clerical errors. Also at that time, internal auditors were primarily concerned with checking accounting records and detecting financial errors and irregularities and often were little more than shadows or assistants to their independent external auditors. Walter B. Meigs, writing about the status of internal auditors during the 1930s, observed that “internal auditors were clerks assigned to the routine task of a perpetual search for clerical errors in accounting documents.” Early internal auditors were often little more than clerical helpers who carried out routine accounting reconciliations or served as clerical support personnel. Vestiges of this old definition of internal auditing continued in some places even into the early 1970s (Moeller, 2009).

The early concept of auditing, referred to be interpret as internal auditing, because the development of external audit in its modern sense is quite a later era 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.

State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. Public sector audit involves the analysis of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance. Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements Advanced Audit and Assurance, Strathmore University Press, (2009).

#### **2.1.4 Scope of Internal Audit**

As the manual document from (MOFED, 2004), indicates about the duties of audit, audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

Establish, and monitor the achievement of the public body's objectives;

- Identify, assess and manage the risks in achieving the public body's objectives;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies (including behavioral and ethical expectations), procedures, laws and regulations;
- Safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

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 (MOFED, 2004).

By providing the independent opinion and conclusions regarding the operation, function, system and well-being of the organization the auditor can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Haile, 2014).

The internal auditor can perform the work through either functional approach, operational approach, or financial approach (Engida & Johannes Kinfu, 2009).

### **2.1.5 Importance of Auditing**

In the 16th century auditing and accounting were merely concerned with governmental and family issues, were used to prevent frauds and defalcations and to keep independent records of similar transactions. Another advantage of auditing was to periodically record inventories and to ensure accuracy in the accounting records and reporting (Brown, 1962).

### **2.1.6 Internal Audit vs. External Audit**

An audit is a formal process of evaluation of an organization mainly from the point of view of its financial performance. However, an audit may encompass evaluation of anything from personnel to systems to processes involved in an organization. There are even energy audits, project management audits and quality audits that help in overall efficiency and productivity of an organization. Basically, audits are classified as internal audits and external audits. There are similarities in objectives of both types of audits though there are differences also that will be highlighted in this article.

The most notable difference between internal and external audit is the fact that while internal audit is conducted by a separate departments that still is inside an organization, external audit is conducted by an independent body that resides outside the organization that it audits. Internal audit is more or less a routine procedure that can be initiated any time on the orders of the management of the organization and covers specific areas or departments that are requested by the management. Internal audits can be financial as well as non- financial and are performed by auditors that are employees of the company though they report directly to the management.

Internal audits try to find out the risks faced by a company and the steps being taken to manage these risks.

External audits are requested by a company and are undertaken by public accounting firms. These are exercises that are performed in the most professional manner and are seen as significant from the point of view of all stakeholders in a company.

A major point of difference between these two audit types is the fact that while internal audits are more concerned with risk management, external audits remain confined to final accounts of a company and if data has been presented in a fair and transparent manner in the financial statements or not (Olivia, 2011).

### **2.1.7 Audit Quality**

According to Public Company Accounting Oversight Board (PCAOB), the definition of audit quality is as meeting investors' needs for independent and reliable audits and robust audit committee communications on: 1. financial statements, including related disclosures; 2. assurance about internal control; and 3. going concern warnings. In proposing a definition of audit quality, we seek to base it on concepts that are already widely accepted, rather than trying to break new conceptual ground. (PCAOB, 2013).

The purpose of a quality audit is to assess or examine a product, the process used to produce a particular product or line of products or the system supporting the product to be produced. A quality audit is also used to determine whether or not the subject of the audit is operating in compliance with governing source documentation such as corporate directives, federal and state environmental protection laws and regulations, etc. A quality audit distinguishes itself from a financial audit in that the primary objective of the financial audit is to verify the integrity and accuracy of the accounting methods used within the organization.

The quality of external audit is influenced by the quality of internal audit. So, external auditors required first to consider the quality of internal audit namely in terms of the objectivity, competence and work performed by the IA function before relying on the work of the internal auditor.

The factors of quality audit function to include: (1) competence which is measured by educational level, and Professional certificates, (2) objectivity which is measured by the parties that addressed the audit report to them, and the parties who responsible for the appointment of auditors, (3) quality of performance of tasks, which measured by the accuracy and adequacy of audit programs, and the scope of audit. Similarly Auditors identified the factors of quality of audit functions by: Proficiency, independence, objectivity (Dereje & Wubishet, 2014).

### **2.1.8 Empirical literature Review on Determinants of audit quality**

This section consist the outcomes of the researchers' work, that they can provide the overview of the Determinants of audit quality in different areas.

The research conducted by (Abdulhadi, Al-Khaddash, Al Husam & Nawas, 2013) focuses on explaining the practice and challenges of project audit from the prospective of auditors experience, independence, competence, training and the size of audit staff in Addis Ababa Construction Bureau. In Jordanian Commercial Banks (JCBs). The results indicate a positive and significant correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor. The results of this study make a contribution to existing literature in the area of factors affecting audit quality in eastern developing countries such as Jordan.

Another study was also conducted by Solomon (2016), on the title of “Factors affecting the quality of External Auditing in the case of Ethiopian Commercial Banks”. The aim of the research presented in this paper is to find out whether audit firm size, audit firm tenure, joint provision of audit and non-audit services, audit firm industry specialization and certified audit professionals ratio, as criteria of external audit quality, can limit the applying of earnings management (proxy for audit quality) in Ethiopian Commercial banks.

In Malaysia, there was lack of exposure of effectiveness in internal auditing based on “Perception of managers and internal auditors as to factors affecting the effectiveness of internal audit in the public sector context” (Alzeban & David Gwilliam, 2012).The

researchers were able to use only a few journal articles from Malaysia as their reference.

In Malaysia, significant fraud in organization may cause losses and affect the reputation of the organization. Survey conducted by KPMG Malaysia shows that internal audit is the most important mechanism (24 percent) to detect fraud in organization. The finding proves that effectiveness of internal audit would reduce any discrepancies in organization in Malaysia (KPMG Malaysia, 2013). (Causholli et al., 2013) investigate the audit quality issue by investigating whether and how audit quality is associated with the joint provision of audit and non-audit services by the external audit firm to its audit client. Finally, he found that the CPA firm size and audit fees for all selected Asian countries reveal statistical significant with positive relationship with audit quality.

Whereas provision of non-audit services has significant negative impact on audit quality mainly for Indonesia companies only. The paper conducted by Bethitina, (2015), tries to analyze the external audit quality and the various audit firm-client relationships. The purpose of this study is to investigate the determinants of external audit quality substituted by considered professional bodies to properly monitor the external audit profession and to maintain trust among the various stakeholders in Ethiopian manufacturing share companies. Another study conducted by EkoSuyono, (2012), by the title of: “Determinant Factors Affecting the Audit Quality”: An Indonesian Perspective, states that the aims of this research are to analyze determinant factors affecting the audit quality namely: independence, experience accountability. Those all of the above empirical literatures and researchers focused on internal auditors and external auditors, hence, this study feel the gap on researches that focus on Addis Ababa City Construction Bureau project audit.

#### **2.1.8.1 Experience**

Experience is expertise obtained by someone after a long time period of work. The use of experience as an independent variable is based on the assumption that repeated work in a longtime period will improve the quality of work. Kolodner, (1996) has showed how the experience could be used to improve the decision making

performance. The same study conducted by Slamet, (2012), research shows that work experience and competence positive effect on audit quality. So the higher the auditor's work experience possessed, the higher the quality of audits produced auditor independent and the higher the level of competence of auditors, the higher the quality of audits produced by the independent auditor. To improve the competence of auditors, the provision of training and given the opportunity for auditors to follow a course or an increase in the education profession.

Formal education is a public accountant and work experiences in the profession are the two things are mutually complementary. Therefore, if one enters a career as a public accountant, he should first seek professional experience under the supervision of more experienced senior accountant. Even so accountant who had just finished his formal education may soon undergo technical training in the profession, the government requires work experience of at least three years as an accountant with a good reputation in the field of auditing for accountants who wish to obtain a permit to practice in the public accounting profession in Indonesia Minister Finance No.43 / KMK.017 / 1997 dated (January 27, 1997).

### **2.1.8.2 Training**

Auditors' skill improvement training can provide by internal trainers or external sources having a well experience for structural training, all the external auditors roles and responsibilities are defined on base of the knowledge of the internal management system by some unique techniques like a questions method and other assessment of techniques. On the successful training sections and match with requirements of the auditors are certified by trainer. According to Mulyadi (2002), it is a very important to attend technical trainings that an auditor should be able to undergo considerable in the practice of accounting and auditing procedures.

To develop an effective audit program and to satisfy the standards' requirements, auditors must be trained in conducting audits. Effective auditor training is probably one of the single greatest value-added opportunities companies have with regard to their management systems. The training should be appropriate for the complexity of the areas to be audited and include training on the company's audit process and

systems. Auditors and all employees should understand that audits are system audits, not people audits (Abarca, 1999).

### **2.1.8.3 Independence**

According to the guidance of the Institute of Internal Auditors (IIA 1100), the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The Institute of Internal Auditors (IIA 1100) interprets as follows: -

*“Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.”*

**Organizational independence:** can be explained as the relationship between the internal audit activity and the audit committee. Organizational independence can be fulfilled through reporting IA activities to higher bodies in the organization.

**Individual independence** of internal auditors is all about individual staffs in IAD independence and objectivity with look upon the use of IA activity as a ground for top management level (Goodwin-Stewart & Yeo, 2001).

Individual independence can be fulfilled through staffs impartiality, biasedness, and avoiding of conflict of interests (IIA, 2001) Tadiwos, (2016). Just as independence is a major issue for external auditors, independence is also an important issue for internal auditors. However, because the company they are auditing directly employs them, it is impossible for internal auditors to be independent in the same manner as external auditors (Burch & Hock, 2011).

The independence of the internal auditor is depends on the place in the organization, the extent of responsibility and authority required for performing his/her function, and it must be appreciated that the desire to have independence in the internal auditing function (Engida & Johannes kinfu, 2009).

#### **2.1.8.4 Size of Audit Staff**

(DeAngelo, 1981), proposes that larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Similarly, (Dopuch & Simunic, 1982), argue that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms have more resources with which to conduct tests, (Moore & Scott, 1989), demonstrate analytically that audit firm size and the extent of audit work are positively related.

The link between the request for audit services and audits to large-firms is based on the “agency theory” as well as the links between audit quality and the auditor size (Lindberg, 2001), Clients intend to choose a high quality auditor to reach the best auditing results as large audit firms have more incentive to issue a reliable audit report with the purpose of maintaining the reputation (DeAngelo, 1981). Some factors such as professional competence, auditor’s qualification and supporting technical information undoubtedly can be found in large audit firm’s system. Therefore the results of the study on the relationship between audit size and audit quality is widely acceptable on global level (Bayou, 2017).

### **2.2 Research Gap Analysis**

Some previous studies were limited by conducting only the quality of external auditing (Bethitina, 2015); (Bogale, 2016 and Solomon, 2016), others by using single variable (Ejigsew , 2016);and the rest by focusing on the cases which are different from the public sectors of government organizations, such as share companies and banks and also conducted by international standard (Osman, 2016).

Therefore, this study aims to fill that gap by focusing the quality and challenges of Project Audit in Construction Bureau in Addis Ababa city.

### **2.3. Chapter Summary**

In this chapter, Theoretical literature review, Empirical literature review, Research gap analysis and conceptual framework are described. The introduction and the summary parts are mentioned at the beginning and last paragraph.

In assessing the organizational project audit challenge, it is important to indicate the determinant factors of project audit explaining the practice and challenges of project audit from the prospective of auditors experience, independence, competence, training and the size of audit staff in Addis Ababa Construction Bureau. Some of them are: Experience, Independence of project Auditor, Competency of project auditor, Training, Management Support of project auditor and Cooperativeness of Audi tee clients. These determinants have a positive effect on the quality of project auditing. The independent and dependent variables are also mentioned in figure.

## CHAPTER THREE

### RESEARCH DESIGN AND METHODOLOGY

#### Introduction

This chapter presents various procedures used by researchers to collect and analyze the necessary information required to achieve the research objective. It begins with the introduction part followed by section 3.1 Research Design; section 3.2 Target population and Sample size; section 3.3 Methods of data collection and section 3.4 Measurement of variables, followed by section 3.5 methods of analyzing data.

#### 3.1 Research Design

This research is a practical problem developed from the observation of project audit directorate explaining the practice and challenges of project audit from the prospective of auditors experience, independence, competence, training and the size of audit staff in Addis Ababa Construction Bureau. The research questions are oriented to investigate the challenges of project audit of Addis Ababa city administration.

This research can be categorized as explanatory type. It explains practices and challenges of project audit

The general objective of this study is to explain the Project audit Practices and Challenges in Addis Ababa Construction Bureau.

**Quantitative** research allows the researcher to measure and analyze data. This is advantageous because the researcher is more objective about the findings of the research (Catherine Jones, 2006). This study used a quantitative, explanatory research using a questionnaire. In this research, the researcher applied structured questionnaires. The questionnaire is related with the research and objective of this study and tries to answer research questions. The questionnaire is organized in two sections. The first part deals about respondents' profile or demographic characteristics of the respondents which consists the age, gender, level of education, , position of job, and number of years of experience of respondents. The second section consist Likert-scale questions those are to analyze research, concerning. Likert-scale has 5 degrees namely Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree.

In qualitative methodology, the researcher gathers the data through interview and document review. In this study semi-structured interviews are applied in order to understand the relationship between variables. The interviews were conducted with project auditors and director.

## **3.2 Target Population and Sample size**

### **3.2.1 Target Population**

The population of the study comprises the stake holders of constructions projects such as all staffs of construction bureau, clients (owner of projects constructions), contractors, and consultants, sub-cities of constructions offices and sectors offices who have projects of constructions of buildings. These target populations belongs to those projects audited by the project auditors for the study (audited and projects completed from 2008-2010E.C.) there number of audited is 28 under taken Addis Ababa city construction bureau to get possible reasons for explain the Project audit Practices and Challenges in Addis Ababa Construction Bureau.

### **3.2.2 Sample size**

As mentioned in the above, sampling is the process or technique of selecting as suitable sample for the purpose of Determining parameters or characteristics of the whole population. Regarding to this, (Paulaetal, 2001) noted that, sampling refers to drawing a section which is a subset of Elements from population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately measuring opinions and Characteristics of population. The usual goal in sampling is to produce representative Section from the population. Perfect representative sample is a mirror image of the Population from which it selected.

This study employed both census and purposive sampling techniques in order to select the required size. Primarily, census select those project auditors and there director found in the bureau, since all auditors and director they are small in number i.e. 7 there number is very small in here I use census, Directorate of constructions team leaders

purposely select from them, CEO, contractors' consultants Populations for each and managers out of 10 sub cities construction offices head. There are twenty eight projects audited and those who are responded on the totally twenty seven this number out of population. This selection was done based on the Respondent knowledge and working experience as associated with the study subject.

### **3.3 Methods of Data Collection**

The type of instrument used in this study would be primary questioners presented to respondents and secondary data directorate of project audit issues reports of audit and the directorate present to the management its plan and its accomplishments. Primary data presents by using questionnaires and interviews.

A **questionnaire** will design for project auditors' directorate and other stake holder. The questionnaire would develop based on previous empirical literature. To ensure the content validity of the questionnaire used to assess each constructs depicted in Appendix I and II, all items regarding the measurement of constructs would be adapted from studies. Questionnaires distribute to the staff of project auditors and others are to get quantitative data from the interview questioners' to get qualitative data. The questionnaires also structured in such a way by using likert scale of 5 points that respondents be able to answer it easily ranging from 1 "strongly agree" to 5 "strongly disagree". A closed-ended interview also used to collect primary data for gathering information regarding the quality of project audit. Interview was conducted with the director and project auditors (see Appendix II).

### **3.4 Methods of Data Analysis**

After the data Collected, it would be edited by entering into the computer by using the Statistical Package for Social Scientists (SPSS 20), and sorted for completeness, checked for any errors and omissions, and would summarize in tables. The data analyze through an explanatory statistics such as frequency distribution used to assess the demographic profile of the respondents and the various determinants on the quality of project audit in construction offices. To make the analysis more meaningful, clear and easily interpretable and to provide details regarding the quality of project auditing

the Descriptive statistics by using percentages, figures and tables will generate from the software to establish relationship among variables.

### **Summary**

The aim of the research was to investigate the project audit quality in improving the practice of project auditing in Addis Ababa city construction bureau. This chapter presents the methodology and techniques used in this research. The target population of the study used all staff of project auditors in Addis Ababa city construction bureau, contractors consultants, and owners of projects questionnaires was distributed to the directorate of public constructions concerned:, case team leaders and directors. The interview will also conduct with the director and project auditors of directorate.

## **CHAPTER FOUR**

### **Data Analysis and Interpretation**

#### **Introduction**

The research study attempted to assess the quality of project audit of Addis Ababa city construction bureau. For this, 23 questionnaires were distributed to the directors and project auditors, Directorate of constructions team leaders, CEO, contractors' consultants and managers sub cities construction offices head of the selected Addis Ababa city construction public sector offices. 27 responses were obtained.

This chapter covers four sections next to the introduction part 4.1 consists the Reliability analysis on variables of the study and. 4.2 deals about the analysis results of Demographic Characteristics which collected through questionnaire. 4.3 deals with the responses about the Determinants of project audit quality and 4.4 consists the results of analysis that constitute the main findings of this study, and the research question could be answered through this section, and the last section. Therefore, this chapter presents the analysis and discussion of the research findings from primary sources. All the results which are gained from the respondents were presented and analyzed with the help of SPSS.

#### **4.1 Response Rate**

Since the data collection tool used was questionnaires in line with interview, project auditors and their director's and document review, it is worthy to present the rate of response to confirm the representativeness of the data collected. The total sample size required from seven staffs of project audit was all, and also the numbers of respondents purposely selected were stockholders of project audit contractors, consultants and project owners for questionnaire and key informants for interview project auditors and their director's. Hence the total number of respondents expected to respond and return the tool had been all. The total number of staffs responded, while key informants were fully responded. Therefore the response rate was 100%.

## 4.2 Demographic Characteristics of Respondents

The first part of questionnaire is the Demographic characteristics of the respondents it consists: The gender, the age of respondents, the respondents' educational level, position of jobs and working experience as selected samples.

**Table 4.1 Demographic characteristics of respondents**

Variables	Category	Frequency	Percentage
<b>Gender</b>	Male	16	59.3
	Female	11	40.7
	Total	27	100
<b>Age</b>	Under 30	4	14.8
	31 – 39	8	29.6
	40 -49	12	44.4
	50 and above	3	11.1
	Total	27	100
<b>Education</b>	Secondary school	2	7.4
	Diploma	2	7.4
	Degree	19	70.4
	Masters	4	14.8
	PhD	0	0
	Total	27	100
<b>Job position</b>	Top management	8	29.6
	Middle Management	7	25.9
	Operational	12	44.4

	Total	27	100
<b>Number of years of experience</b>	2-5 years	6	22.2
	6-10 years	14	51.9
	Above 10 years	7	25.9
	Total	27	100

**Source: Data collection 2019, using SPSS 20**

As shown in the above table (Table 4.1), by assessing the gender of the respondents 16(59.3%) of the respondents were male and the remaining 11(40.7%) of the respondents were female.

From the total 27 respondents, the majority of respondents were fall between the age of 40-49 which consists 12 (44.4%), followed by, between 31-39 had 8(29.6%); under 30 had 4(14.8) and lastly 50 & above had 3(11.1%).

According to their response, 19(70.4%) of the respondents obtained a bachelor degree as their highest educational level. In addition, 4(14.8%) of the respondents obtained masters as their highest level of education and 2(7.4%) of the respondents obtained diploma, 2(7.4%) of the respondents obtained secondary school. None of them had PhD.

The majority number of job position of the respondents were Operational 12(44.4%), followed by top management 8(29.6%) and middle management 7(29.9%).

Respondents working experiences in ranged from 6-10 years were 14(51.9%), followed by were above 10 years 7(25.9%), and 2-5 years 6 ( 22.2%) year experience.

As shown in Table 4.1, it is clear that 19(70.4%) of the respondent indicated their highest level as degree, and 2(7.4%) of the respondent indicated their level as diploma.

This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. Interims of gender of the respondents 16(59.3%) of the respondents male and the remaining 11(40.7%) of the respondents female, because in construction works the number of males are more than females participates in construction sector.

There are different challenges and practices of project audit. In this research some of them are mentioned as: Independence, Competences and training, have been stated in the literature review and analyzed as presented here below. And the following result was obtained as presented in the table below, followed by the interpretation.

#### 4.2.1 Independence

**Table 4.2 Independence**

Item	Responses									
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fr	%
Q1. Project auditors perform the auditing activities without any interference. From any body and with influence from the office	0	-	0	-	4	14.8	6	22.2	17	63.0
Q2. Project auditors freely decide auditing procedures based on auditing standards.	0	-	4	14.8	6	22.22	0	-	17	62.9
Q3. Project auditors freely decide the audit scope based on auditing standards.	0	-	0	-	4	14.8	6	22.2	17	63.0
Q4. Project auditors feel free to include any audit finding in there audit work and report.	0	-	0	-	4	14.8	5	18.5	18	66.7
Q5. The project audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of organization	17	63.0	7	25.9	3	11.1	0	-	0	-
Q6. The value of	17	63.0	7	25.9	3	11.1	0	-	0	-

project auditing depends heavily on the independence of auditors in mind and appearance.										
Q7. Free from any side pressure in the reported findings that are material	18	66.6	7	25.9	2	7.4	0	-	0	-
Q8. The use of independence in your staff should be for detection of errors and fraud.	18	66.6	6	22.2	3	11.1	0	-	0	-
Q9. Legal liability provides incentive for project auditors to maintain independence.	17	63.0	7	25.9	3	11.1	0	-	0	-
Q10. Project Auditors are independent of management in exercising auditing related decision.	0	-	0	-	2	7.4	10	37.	15	55.6

**Source: Analysis of Survey data 2019, using SPSS**

As shown in the above (Table 4.2.1), Q1-10 were related to the independency of project auditors. The first item consists 17(63.0%) of the respondents strongly disagreed upon Project auditors perform the auditing activities without any interference. From any body and without any influence from the office.6 (22.2%) of the respondents disagreed with that 4(14.8%) of them neutral

17(62.96%) strongly disagreed about the presented question Project auditors freely decide auditing procedures based on auditing standards .6 (22.2%) disagreed of the respondents that 4(14.8%) of them neutral.

17(63.0%) of the respondents strongly disagree on Project auditors freely decide the audit scope based on auditing standards. 6(22.2%) disagree, and the rest 4(14.8%), neutral.

18(66.7%) of the respondents strongly disagreed with that. Project auditors feel free to include any audit finding in their audit work and report 5(18.5%) disagreed with this idea and the remaining 4(14.8%), neutral.

17(63.0%) of the respondents strongly agreed with the project audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of organization, 7(25.9%) agreed, the rest 3(11.1%), neutral. .

17(63.0%) of the respondents strongly agreed with the value of project auditing depends heavily on the independence of auditors in mind and appearance, 7(25.9%) agreed, the rest 3(11.1%), neutral.

18(66.7%) of the respondents strongly agreed with, Free from any side pressure in the reported findings that are material 7(25.9%) agreed, the rest 2(7.4%), neutral.

18(66.6%) of the respondents strongly agreed with, the use of independence in your staff should be for detection of errors and fraud 6(22.2%) were agreed, the rest 3(11.1%), neutral

17(63.0%) of the respondents strongly agreed with, Legal liability provides incentive for project auditors to maintain independence 7(25.9%) agreed, the rest 3(11.1%), neutral

15(55.6%) strongly disagreed about the Project Auditors are independent of management in exercising auditing related decision. 10 (37.0%) disagreed of the respondents that 2(7.4%) of them neutral.

The result of the above responses shows that “independence used for detection of errors and fraud, the presence of legal liability to improve the project auditor’s independence, it contributes to accuracy of the project auditors’ activity and the quality of project auditors’, it is also Project auditors freely decide the audit scope based on auditing standards.”

According to interview conducted with director of project audit and project auditors’ they confirm that Project Auditors are not independent of management in exercising auditing

related decision. So, an auditor must be an independent in mental and physical attitude. Project auditors must be free from any financial and position interest. If there is a lack of practical audit independency in the Addis Ababa construction bureau it hinders the development of project audit quality.

The auditor's independence has direct and significant impact on audit quality significantly. This implies the independence of the auditor has a positive contribution such that it enables audit quality.

This indicates project auditors did not accomplished there audit accordingly auditing standards. There independency is violated by other bodies, these are there CEO and their clients. This resulted mainly from auditors being not inexperienced.

#### 4.2.2 Competency

**Table 4.3 Competency**

Item	Responses									
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Fre.	%	Fr e.	%	F r e.	%	Fr e.	%	Fre.	%
Q1. You think that project auditors of your organization are competent enough to detect fraud?	0		0		0		10	37.	17	63.0
Q2The project auditor’s in my organization are qualified to undertake audit function	0		0		4	14.8	7	25.9	16	59.3
Q3. The competence of project auditor is approved by(OFAG) Office of auditor general before recruitments is made	0		0		0		0		27	100.0

Q4. Experienced project auditors are participated in auditing process	0		0		3	11.1	4	14.8	20	74.1
Q5. Project Auditors should have skilled in construction buildings and bill of quantity of procurement	0		0		0		7	25.9	20	74.1
Q6. Project audit use red flags questions to detect fraud	16	59.3	5	18.5	6	22.2	0		0	
Q7. The audit procedures and evidence collections are completed on time, since enough and skilled project auditors are available or employed	24	88.9	2	7.4	0		0		1	3.7
Q8. The work of project audit is performed with modern technology that uses computerized data tools and specific software	0		0		0		0		27	100.0

**Source: Analysis of Survey data 2019, using SPSS**

As shown in the above (Table 4.2.1), Q1-8 related to the Competency of project auditors. The first item consists 17(63.0%) of the respondents strongly disagreed upon competency you think that project auditors of your organization are competent enough to detect fraud. 10(37.0%) disagree about the presented question.

16(59.3%) of the respondents strongly disagreed with that the project auditor's in my organization are qualified to undertake audit function 7(25.9%) of the respondents disagreed with that 4(14.8%) of them neutral.

The competence of project auditor is approved by (OFAG) Office of auditor general before recruitments is made 27 (100.00%) of the respondents strongly disagree.

20(74.1%) of the respondents strongly disagree on having an Experienced project auditors are participated in auditing process. 4(14.8%) disagree, and the rest 3(11.1%), neutral.

20(74.1%) of the respondents strongly disagreed with that Project Auditors should have skilled in construction buildings and bill of quantity of procurement. 7(25.93%) were disagreed with this idea.

16(59.3%) of the respondents strongly agreed with the Project audit use red flags questions to detect fraud 5(18.5%) of them agreed, the rest 6(22.2%), neutral.

24(88.9%) of the respondents strongly agreed with the statement of the audit procedures and evidence collections are completed on time, since enough and skilled project auditors are available or employed 2(7.4%) agreed, and the rest 1(3.7) strongly disagreed

The work of project audit is performed with modern technology that uses computerized data tools and specific software all the respondents 27(100.00%) strongly disagree.

The result of the above responses shows that “competent project auditors should have used for, the audit procedures and evidence collections are completed on time, since enough and competent, skilled project auditors are available or employed.”

Auditor Competence has direct and significant impact on the audit quality, this indicates that the competence of the auditor is able to positively affect audit quality variation, or the higher the competence, the higher the quality of the audit.

According to interview conducted with director of project audit and project auditors’ they confirm that they are fresh to project audit directorate, the project auditor’s in there bureau are not qualified they are not experienced competent enough to undertake audit function because of less experiences. Project auditors must be competent enough to detect fraud.

### 4.2.3 Training

**Table 4.4 Training**

Item	Responses									
	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Fre	%	F	%	Fr	%	Fre.	%	Fre	%
Training	.		r		e.				.	
			e							
			.							

<b>Q1.</b> Your department gives the opportunity of getting training helping for skill develops& to update your knowledge.	<b>0</b>		<b>0</b>		<b>0</b>		<b>10</b>	<b>37</b>	<b>17</b>	<b>63</b>
<b>Q2.</b> The management of your organization has a commitment to add value to the project audit function.	<b>0</b>		<b>2</b>	<b>7.4</b>	<b>4</b>	<b>14.8</b>	<b>21</b>	<b>77.8</b>	<b>0</b>	
<b>Q3.</b> Project audit has policies for training of Project audit staff.	<b>0</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>27</b>	<b>100</b>
<b>Q4.</b> Project auditors should take continuous professional development activities.	<b>18</b>	<b>66.7</b>	<b>7</b>	<b>25.9</b>	<b>2</b>	<b>7.4</b>	<b>0</b>		<b>0</b>	
<b>Q5.</b> Adequate short term training is arranged for project auditors each year	<b>0</b>		<b>0</b>		<b>3</b>	<b>11.1</b>	<b>5</b>	<b>18.5</b>	<b>19</b>	<b>70.4</b>
<b>Q6.</b> Project Auditors must have sufficient training to review appropriate audit procedures	<b>25</b>	<b>92.6</b>	<b>2</b>	<b>7.4</b>	<b>0</b>		<b>0</b>		<b>0</b>	
<b>Q7.</b> Training schedules should be prepared by the concerned trainers.	<b>20</b>	<b>74.1</b>	<b>6</b>	<b>22.2</b>	<b>1</b>	<b>3.7</b>	<b>0</b>		<b>0</b>	

**Source: Analysis of Survey data 2019, using SPSS**

As shown in the above (Table 4.2.1), Q1-7 related to the training of project auditors. The first item consists 17(63.0%) of the respondents strongly disagreed upon Your department gives the opportunity of getting training helping for skill develops & to update your knowledge 10(37.0%) disagree about the presented question.

21(77.8%) of the respondents disagreed with that the management of your organization has a commitment to add value to the project audit function.2 (7.4%) of the respondents agreed with that 4(14.8%) of them neutral.

Project audit has policies for training of Project audit staff 27(100.00%) of all the respondents strongly disagree.

18(66.7%) of the respondents strongly agreed on Project auditors should take continuous professional development activities, 7(25.9%) agreed, and the rest 2(7.4%), neutral.

19(70.4%) of the respondents strongly disagreed with that Adequate short term training is arranged for project auditors each year.5 (18.5%) of the respondents disagreed with that 3(11.1%) of them neutral.

25(92.6%) of the respondents strongly agreed on Project Auditors must have sufficient training to review appropriate audit procedures, 2(7.4%) agreed.

20(74.1%) of the respondents strongly agree on Training schedules should be prepared by the concerned trainers 6(22.2%) agreed, and the rest 3(3.7%), neutral.

From the above result we can observe that the respondents believe that training is necessary for auditors to review appropriate audit procedures and training schedule must be prepared by qualified trainees. Project auditors also informed that they didn't get enough training to develop and update their skill, and directorate of project audit has no policies for training of project auditors' staff. Accordingly SAS No.1, section 210; the first general standard is: The auditor must have adequate technical training and proficiency to perform the audit.

As the response obtained from the interview shows, "the practice of Project auditors training in audit staff can enhance the quality of audit, because training help the auditors to update their skills, to examine the objectives of auditing, to provide reliability report". So the positive relationship appears between training and audit quality.

## **CHAPTER FIVE**

### **Conclusion and Recommendation**

#### **Introduction**

This final chapter consists two sections excluding the introduction part: section 5.1 Conclusion which includes the implications and the findings of the study, followed by section 5.2 Recommendation, to provide insight in to the determinants of project audit quality in Addis Ababa construction bureau.

#### **5.1 Conclusion**

Project Audit quality is an important concept in both public and private sector so, it is necessary to maintain the quality of audit to minimize the organizations' problem in public sector. From the previous section, the result indicated lack professional bodies, accountants, experience of the project auditors in project auditor directorate may the cause of dealing the auditing work. As a profile elaborated the professional group was lower than none professionals. Even if the experience of the workers is a bit high, most of the participants engaged indirect stream subjects. With all these fact, it can be assumed that the effectiveness of project auditors in a given public sector have relatively still need improvement.

The scope of project auditors' services is limited to independency. The audit staff should be independent to perform the work in a good manor; t the finding did show this fact. In addition the staff has not free access. There is also a great conflict of interest within their work. However, the project audit provides senior management with sufficient, reliable, and relevant reports about the work they perform and recommendation made. From these we deduced that the offices still tied by great independency problem.

The study has also shown that project audit of the studied bureau need improvement in the areas of competence. Audit effectiveness could be enhanced by ensuring skilled and trained manpower. However, as the result elaborated the project auditors do not

possess sufficient experience to understand the bureau system; in addition to this, they don't possessed enough knowledge and skills for competency. Because, the staff does not have capacity building and supportive trainings; therefore, moreover, is no competency among the staffs and external auditors did not support them. In that regard the employees could not develop professional skills.

Finally, this study has revealed that the project audit of the studied bureau needs to improve their organizational settings. As the finding elaborated the authority of project audit is not clearly defined. In addition, the project audit directorate is not large enough to successfully carry out its duties. The basic reason is that the offices don't have or never allocate enough budgets to add the manpower and also the project audit has no policies for hiring project audit staff, and also, that regard, it is not in line with standards for professional practice formulated by the auditing standards (GAAS) Generally Accepted Auditing Standards.

## **5.2. Recommendation**

The overall objective of the study is to asses of the quality of project audit in Addis Ababa construction bureau. In this regard, the analysis using quantitative and qualitative methods were made. Based on the data collection and analysis, the researcher provides the following recommendations to the concerned bodies.

The organizations had a shortage of experienced auditors. So, training should be given to develop the skills of project auditors to avoid this problem.

- Training should be given to the project auditors by qualified trainers
- The project auditors are required to be independent in order to be objective and have professional skepticism.
- The project auditors should have enough knowledge about the project audit quality and its determinants.
- The project auditors should perform the auditing activities without any interference.
- The project auditors report should presented to the city council of Addis Ababa.

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## Appendix I

**Addis Ababa University**  
**College of Business and Economics**  
**Department of Accounting and Finance**

Questionnaire for employees in the Construction Bureau sectors on which Project Audit were conducted I am MSc, student in Accounting & Auditing at Addis Ababa University, College of Business and Economics. This questionnaire is required for the study entitled **Project audit Practices and its Challenges in Addis Ababa**

**Construction Bureau**

On Accountability and on Performance Improvement in the Audited Public Sectors of project audit City of Addis Ababa“. My study is a partial requirement for the completion of master degree and it has undertaken for the academic purpose only. This questionnaire is prepared in order to get the necessary information to undertake study on the above stated title. The purpose of the study is to assess the role of Project audit in the audited public sectors of the region. Since most of the questionnaires stated below are closed ended type, responding them may not take much time. Any information provided will have kept confidential. Therefore, I kindly request your esteemed cooperation for volunteer to respond the questionnaire and provide accurate and complete data. For more information, you may make contact me by the following address:

NURU MUSTEFA AHMED 0911699496 or Email: nuruaudit@gmail.com  
Thank you in advance for your time & cooperation! **Attention:** Do not write your name.

Please **Circle** the **number** that corresponds to your answer from the available choices.  
Part One: Profile of the respondent

1. Your gender/sex

A Male

B Female

2 Your age

1. below 30 years old

- 2. 31-39 years old
- 3. 40-49 years old
- 4. 50 years or above

**3. Your level of education**

- 1. Secondary school
- 2. Diploma
- 3. Degree
- 4. Masters
- 5. PhD

**4. Your work position (level) in your organization**

- 1) Top management
- 2) Middle management
- 3) Operational

**5) Number of years of experience**

- 1) 2-5 years ( )
- 2) 6-10 ( ) years
- 3) Above 10 years ( )

Part Two: Project audit in enhancing accountability and performance improvement  
I. Independency of Project Auditors and competency of project audits and training part of the questionnaire, I am interested in your opinions about Project audit. There is no right or wrong answers to any of these statements. What I would like you to do that simply read each statement as it appears. Then indicate the extent of your agreement or disagreement by circling the number that best describes your reaction to the statement: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2) and, Strongly Disagree (1),

<b>Factors</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>I. Independence</b>					
1. Project auditors perform the auditing activities without any interference. From any body and without any influence from the office.	5	4	3	2	1
2. Project auditors freely decide auditing procedures based on auditing standards.	5	3	3	2	1
3. Project auditors freely decide the audit scope based on auditing standards.	5	4	3	2	1
4. Project auditors feel free to include any audit finding in there audit work and report.	5	4	3	2	1
5. The project audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of organization.	5	4	3	2	1
6. The value of project auditing depends heavily on the independence of auditors in mind and appearance	5	4	3	2	1
7. Free from any side pressure in the reported findings that are material	5	4	3	2	1
8. The use of independence in your staff should be for detection of errors and fraud.	5	4	3	2	1
9. Legal liability provides incentive for project auditors to maintain independence.	5	4		2	1
10. Project Auditors are independent of management in exercising auditing related decision.	5	4	3	2	1
<b>II. Competency</b>					
1. You think that project auditors of your organization are competent enough to detect fraud?	5	4	3	2	1
2. The project auditor's in my organization are qualified to undertake audit function	5	4	3	2	1
3. The competence of project auditor is approved by(OFAG) Office of auditor general before recruitments is made	5	4	3	2	1

4.Experienced project auditors are participated in auditing process	5	4	3	2	1
5. Project Auditors have evaluation skill in construction buildings and bill of quantity of procurement	5	4	3	2	1
6. Project audit use red flags questions to detect fraud	5	4	3	2	1
7. The audit procedures and evidence collections are completed on time, since enough and skilled project auditors are available or employed.	5	4	3	2	1
8. The work of project audit is performed with modern technology that uses computerized data tools and specific software	5	4	3	2	1

<b>III. Training</b>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Your department gives the opportunity of getting training helping for skill develops & to update your knowledge.	5	4	3	2	1
2. The management of your organization has a commitment to add value to the project audit function?	5	4	3	2	1
3. Project audit has policies for training of Project audit staff.	5	4	3	2	1
4. Project auditors undertake continuous professional development activities.	5	4	3	2	1
5. Adequate short term training is arranged for project auditors each year	5	4	3	2	1
6. Project Auditors must have sufficient training to review appropriate audit procedures	5	4	3	2	1
7. Training schedules should be prepared by the concerned trainers.	5	4	3	2	1

If you have additional comments:

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Thank you very much!!

## **Appendix II**

### **Addis Ababa University College of Business and Economics Department of Accounting and Finance MSC- Accounting and Auditing**

#### **Interview with the project audit**

#### **Interview question**

1. What are the current challenges of project audit Directorate? -----

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2. What actions need to be undertaken to challenges identified above? -----

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3. What is the major importance of project audit quality? -----

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4. What is the current level of project audit Directorate duty responsibility and action awareness of the public? -----

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5. What is the relationship between training and project audit quality? -----

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6. What is the preliminary determinant of project audit quality? -----

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7. All project Audits reports are sent to auditee organizations -----