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ASSESSMENT OF MANAGEMENT AUDIT APPLICATION IN ETHIOPIAN PUBLIC ENTERPRISES (The Case of Ethiopian Air Lines and Ethiopian Telecommunication Corporation)

A PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF MASTERS OF BUSINESS ADMINISTRATION

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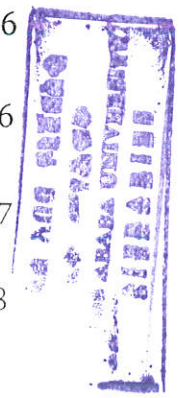

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Appendix – II Internal structure of management audit department

List of acronyms

A number of acronyms are found through out this paper. They are:

GAS	Government Accounting Standard Board
IIA	Institute of Internal Auditors
EAL	Ethiopian Airline
ETC	Ethiopian Telecommunication Corporation
BOD	Board of Directors
CEO	chief Executive Officers

Abstract

This study was designed to assess the application of management audit in Ethiopian public enterprise. The study was intended to evaluate how enterprises management audit departments' practices were managed to comply with IIA standards for professional practice of internal auditors. To secure the pointed insights an investigation was initiated by assessing the case of two public enterprises: EAL and ETC. To triangulate evidences, multiple data were gathered, both from primary and secondary sources. Next, the data gathered were classified under theme deemed significant area for analysis and inferences. The analysis then was made comparing the existing practices with the IIA standards. The result revealed there were areas where the enterprises management audit departments complies or not complies to the requirements of IIA standards for professional practice of internal auditors. In general, management audit department of EAL was found to comply with the standards in many aspects than management audit department of ETC.

Chapter –one

This chapter deals with back ground of the study, statement of the problem, objective of the study, the research methodology, significance of the study, delimitation of the study, limitation of the study, and organization of the study.

1.1. Background of the study

The role of management in organization has been and will continue to be that of control agent (Taylor and smith: 1972: P: 270). Confirming this Adams (`1994) on his article on agency theory and internal auditor indicate that organization do have an anexus of contract between the owner of economic resource (the principal) and managers (agents) who are charged with using and controlling those resources. Further more agency theory is based on the premises that agent have more information than principals and that this information asymmetry adversely affects the principal ability to monitor effectively whether their interest are being properly served by agents (managers).On the other hand agents incur bonding cost; for instance the cost of internal audit in order to signal to the principal that they are acting responsibly and in a manner consistent with contract of employment.

From the above literatures it can be deduced that it is both the interest of the principals and agents to demand monitoring service-like internal auditing. Therefore, auditing can be viewed as an instrument of organizational action implementation and control or can be understood as a managerial tool. As control agent, management must plan, organize and control the operation of the organization.

In "systems" terms, management must regulate and control the behavior of the organization for and on behalf of those having an interest in the organization. The relation ship between management and such interested parties is defined as follows: The chief executive officer has been delegated authority from the stockholders, the board of directors, governmental bodies and agencies and the general public (social society as a whole)(Taylor and smith: 1972).

Management has been delegated authority, and it can there fore be argued that a report must be made to the interested parties as to the effectiveness and efficiency of management in performing its function. Justification for the audit could be argued on the basis of the importance of management as resources. Management as important resources and interests the stock holders (and the rest of the society for that matter) that a particular business organization survive and grow, then it seems reasonable to conclude that these interested parties would be as interested in information concerning management condition as in financial condition and other indicators of ability to survive and grow. These imply that financial audit and resulting reports do not 'tell the complete story.

This need of interested parties regarding management condition can be met through testing the performance of managerial personnel in order to ascertain to what extent the decisions and policies have been successful in achieving the objectives of the business. Because the entire edifice of the business is erected on the strength of the management capabilities, the functioning of the management should also be subject to controls. Conventional financial statements are used by interested parties to predict the future of a firm, and audit of and report on management would simply further facilitate this prediction process (Taylor and Smith: 1972).

In Ethiopia more recently, the "Government Internal Audit Manual," published by the Council of Ministers in 1985, motivated many state authorities to strengthen internal auditing. In straightforward language, the Manual suggested that "Although it is the responsibility of the management of each enterprise to set up and run an effective audit department, the situation at present is unsatisfactory and those units that do exist are virtually defunct." The reality is that internal auditing today still focuses on traditional activities, such as financial and compliance auditing. Less attention is given to operational audits or the application of modern techniques like flowcharting, statistical sampling, and computer auditing (Wolderuphael: 1998).

Modern auditing has widened the area of audit operations. It now need not remain confined to accounting records alone. The emphasis is more towards examining the internal system so as to evaluate the efficiency of the organization as a whole. This is being done as thoroughly as possible so that certain areas of weakness may be identified, that those areas of weakness may be pointed out to the management and suggestion may be offered to accelerate the process of management development. The modern concept used for this purpose is management audit; which ascertains the soundness of management-both in its external relationships with the out side world and its internal efficiency (Batra: 1997).

Management /performance /operational audit is defined as systematic assessment of methods and policies of a firm's management in the administration and the use of resources, tactical and strategic planning, and employee and organizational improvement. Its objectives are to (1) establish the current level of effectiveness, (2) suggest improvements, and (3) lay down standards for future performance *(http://www.businessdictionary.com/definition/management-audit.html)*.

From the above definition it can be concluded that management audit assist the management in discharge of their responsibilities by providing objective analysis appraisals and recommendations for future and improvements. Thus, helps management to discern how they are operating and how they should operate. For the management audit to play such roles, however, it should be well managed and put in operation according to what is required by IIA (Institute of Internal Auditors) standards for *Professional* Practice of Internal Auditing.

In this study, therefore, an attempt was made, using case study analysis, to look in to the application of management audit in two public enterprises: Ethiopian Telecommunication Corporation and Ethiopian Airlines by evaluating enterprises commitment in proper management of the area and application of conventional internal audit standard by the department.

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1.2. Statement of the problem

Operational/ Management/performance audit is one of the audit types conducted by internal auditors for objective and systematic examination of organizations program, activity, function or management system and procedures to provide an assessment of whether the entity in the pursuit of predetermined goal has achieved economy, efficiency and effectiveness in the utilization of its resource. It has roles such as establishing the current level of effectiveness, suggest improvements, and lay down standards for future performance.

To lock in the fore mentioned key roles of management audit which serve as the road maps for organization to attain efficiency and effectiveness its proper application in practice is imperative; and hence should be assessed. Institute of internal auditors (2007) describes, while differences may affect the practice of internal auditing in different legal and cultural environment, compliance with the *International Standards for the Professional Practice of Internal Auditing*

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Standards is essential if the responsibilities of internal auditors are to be met.

In light of the above facts this study evaluated how management audit has been applied in these enterprises (Ethiopian Telecommunication Corporation and Ethiopian Airlines) via responding to the following basic research question:

RQ. How does enterprises management audits are organized, staffed, administered and perform the audit work to attain the intended objective of the unit compared to Institute of Internal Auditors (IIA) international standards for the professional practice of internal auditors?

1.3. Objective of the study

The study provides detail picture of management audit application in two selected public enterprises Ethiopian Telecommunication Corporation and Ethiopian Airlines. It was analyzed the application of management audit in enterprises through evaluating how the department has been managed and apply IIA standards in actual conduct of the audit work. To backup the general objective the following specific objectives were also looked at in the study. The study evaluated:

- ✓ The structural status of management audit and existence of audit charter and manual for proper guidance of the work.
- ✓ Expertise of staff and effort made by organization to upgrade the competence of their employees
- ✓ The existence of strong audit managers who ensure high quality report through effective audit planning, strong supervision and monitoring in the field, with the proper guidance of professional standards.

- ✓ The extent to which information provision and awareness is created to auditees to shape their attitudes to obtain sufficient support and cooperation in the time of engagement in the field.
- ✓ Existence of entity clearance on conclusion and recommendation of the audit report
- ✓ The existences of formal follow up to ensure whether corrective actions are taken as per the auditors' recommendation
- ✓ The existence of proper audit work documentation and retention practices and
- ✓ Finally suggestions and recommendations were given based on the finding of the study.

1.4. Research methodology

➢ *Research design*

To support the main theme of the research which was assessment of management audit application in public enterprise; it will be advantageous if the study be conducted on all public enterprise in the country for more representativeness of the study. However, two public enterprises Ethiopian Telecommunication Corporation and Ethiopian Airlines were arbitrary selected for the study. This was made because of at least two reasons: one, existence of resource constraints to include all public enterprise in the study and second, these enterprises are giant and noticeably influenced by technological advancement and hence expected to establish management/operational audit department for economy, efficiency and effectiveness audit.

Along with the secondary data the primary data were collected from those groups who would have direct responsibility for proper application of management audit; more specifically auditors and audit managers. Since the target groups from whom the data will primarily collected are small in numbers and hence do not satisfy the statistical sampling procedure the data were

collected from the total population of target groups (auditors and audit directors).Accordingly, the primary data which used as a basis for analysis were collected from twenty management/operational auditors (eleven from EAL and nine from ETC), and from audit directors of each enterprise.

- ***Data collection methods and analysis***

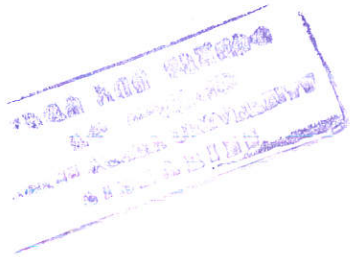
To enhance the quality of data multiple data sources were employed for the study: primary and secondary data. To collect the primary data both questionnaire and interview methods is used. The questionnaire which will be developed will tailored to management/operational auditors to gather information on personal data (qualification, experience and etc), the attribute of the organization and auditors performing the audit, nature of the audit services and its quality in general.

Personal unstructured, open-ended interview, which was exploratory in nature, was conducted with audit directors. Detail records were complied for each interview and subsequently their content was analyzed, and interpreted.

A secondary data were collected through review of relevant documents: audit plans, audit programs, working papers, audit reports and manuals of the organizations.

The interview and the secondary data were required to corroborate the pattern that evolved from data collected through questionnaires; so that the validity of the finding will be enhanced.

The data which were weighted combinations of information gathered from auditors and audit managers along with secondary data were analyzed in two phases. First, the data gathered were properly categorized based on the area deemed to represent potentially significant for analysis



and inferences and second, the classified data were tabulated, analyzed and interpreted followed by description.

- ***Application assessments***

Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential if the responsibilities of internal auditors are to be met(IIA:2007).

The *Standards* consist of Attribute, Performance, and Implementation Standards. Attribute Standards address the attributes of organizations and individuals performing internal audit services. The Performance Standards describe the nature of internal audit services and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards apply to all internal audit services. The Implementation Standards expand upon the Attribute and Performance Standards, providing guidance applicable in specific types of engagements. These standards ultimately may deal with industry-specific, regional, or specialty types of audit services.

To assess the proper application of management audit, therefore, the enterprises management audit departments adherence to applicable Institute of Internal Auditors (IIA) standards for professional practice of internal auditing were evaluated.

1.5. Significance of the study

Thorough investigations of management audit in public enterprises do have the following benefits:

- ❖ Provide dynamic forum for management audit practitioners with the goal of improving their ability to provide service to public enterprises
- ❖ Bring attention on application of management audit as an important tool for efficiency and effectiveness
- ❖ The study is also hopped to serve as initial reading for those researchers who are interested in undertaking deep study in the area.

1.6. Delimitation of the study

Ethiopian Telecommunication Corporation and Ethiopian Airlines are some public enterprises engaged in service delivery in the country. The student researcher desires if all public enterprise are included in the study. However, for existence of resource constraint and to make the study manageable the scope of the research will be limited to the assessment of management audit application in the enterprises under study.

1.7. Limitations of the study

Two limitation of the study must be addressed: first the study result generalization will be a problem. Because the study will be limited to assessment of management audit application in Ethiopian Telecommunication Corporation and Ethiopian Airlines; and hence whether the study holds true for all public enterprise in the country require further exploration. Second, the standard used to assess management audit application comparing enterprises current management audit practices with IIA standards for professional practice of internal auditors in general do have

limitation .That means, though due weight was given to these standards they are not specific to the audit area under study; and hence they were referred to the extent applicable to management audit.

1.8. Organization of the study

The study was structured as follows. Chapter one presents the back ground, statement of the problem, and objective of the study and method of analysis. The second chapter presents a review of the related literature, the third chapter provides empirical analysis based on a case study; and the fourth chapter presents a summary of the findings, conclusions and recommendation.

CHAPTER TWO

THEORETICAL FRAMEWORK

This chapter presents the theoretical fame work in the area of management audit. It stars with the definition and comprise the way the management audit function should be managed, how activities should be performed, and how the management audit department make the audit useful through follow up /post audit review.

2.1. Management audit and its need

↓ *Management/operational audit defined:*

A performance audit "is an objective and systematic examination of a public sector organization's programme, activity, function or management systems and procedures to provide an assessment of whether the entity, in the pursuit of predetermined goals, has achieved economy, efficiency and effectiveness in the utilization of its resources"(GAS: 1999)

Performance audit, therefore, involves an independent assessment of whether economy, efficiency and effectiveness have been achieved by the organizations concerned. These three key elements of operational audit can be defined in various ways, as follows:

- **Economy**

Economy is concerned with minimizing the cost of resources used (staff, materials and equipment) for an activity in the pursuit of its objectives and whether they are in accordance with sound administrative principles and practices and management policies. An economical organization acquires its input resources, of the appropriate quality and quantity, at the lowest cost. In summary, economy means minimizing the cost of resources used for an activity, having regard to quality i.e. spending economically, whilst maintaining quality.

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➢ *Efficiency*

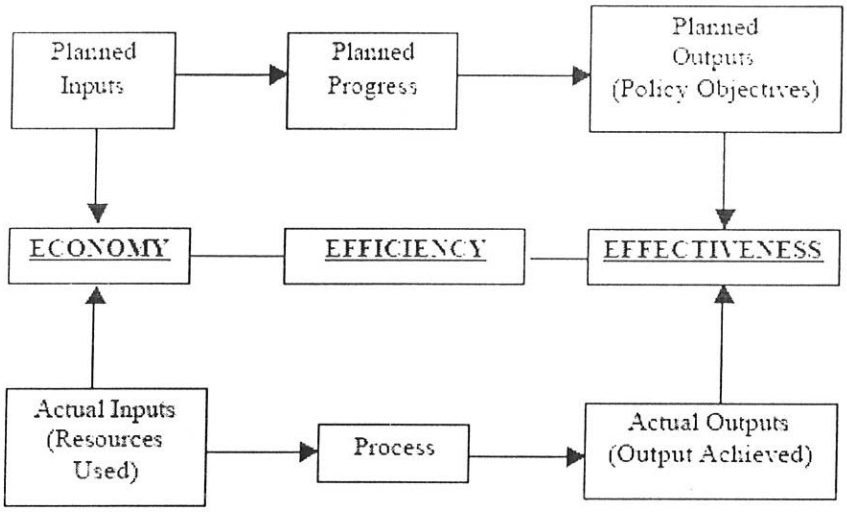
Efficiency is concerned with the relationship between goods and services produced (the outputs) and the resources used to produce them (the inputs). An efficient entity produces the maximum output from any given set of inputs. Alternatively, it may require minimum inputs to achieve a given quantity and quality of output. This will be reflected in increased productivity and lower unit costs. In summary, efficiency means ensuring that maximum output of goods and services has been gained from the resources used in their production i.e. spending well.

➢ Effectiveness

Effectiveness is concerned with achieving predetermined objectives (specific planned achievements) or goals and with the actual impact (the output achieved) compared with the intended impact (the objectives). Using a range of performance measures and indicators, it is possible to assess an entity's effectiveness. In summary, effectiveness means ensuring that the desired results, objectives, targets or policies have been successfully achieved i.e. spending wisely.

The following diagram shows the essential element of performance and how it could be related to performance audit.

Economy, Efficiency and Effectiveness



Source: GAS: 1999

↓ Need of management audit

Having defined and described an operational audit, any mention of the benefit might seem redundant. Yet it may be helpful to describe some of the benefits that have resulted from operational audits. It could assist in convincing top management of the need for such review by providing some details of possible gains-aside from basic objective of reducing waste and inefficiency. While the benefit will depend on the scope and areas of review; Roots and Willson (1989) sates a few of the advantages that some firms have gained from operational audits. These are:

- Securing an objective evaluation or assessment of a specific segment or operation of the company
- The development of the criteria for assessing management performance and achievement of objectives
- The opening of another avenue to improve communications between the corporate office and widely dispersed operations

- A determinations of effectiveness and efficiency of management planning and control system
- The ferreting out of problem area and usually the underlying causes
- The development of idea for cost reduction or profit improvement for specific segment reviewed
- A verification of the validity or attainability of selected corporate or segment objective and strategies
- The development of potential alternative strategies or objectives.

To sum up, the fundamental reason for operational audit is that management needs the additional control which results from a broader independent audit (appraisal) of its activities than it can obtain from conventional internal and statutory financial audits. A second reason is the search for improved professional efficiency. The operational audit is not limited to checking that the different functions within a company are satisfying predefined management objectives. Although the satisfaction of those objectives should, per se, be proof of efficient operations, the operational audits actively seeks to identify ways in which operations can be improved. Third the operational audit has much wider time horizon. The operational audit looks at present and in to the medium term future. The operational audits verify the validity of forecasting and planning methodology adopted by the technical experts, ensuring that all relevant factors have been considered (Lane: 1983).

2.2. *Organizing and planning the audit function*

The dictionary definition of the word "organize is given as to arrange or form in to coherent unity of functioning whole. In the sense intended here organizing refers to the action needed to create function. Among the activities performed in the formation and efficient utilization of the area to attain the objective of the organization includes: creating and maintaining an audit charter, policies and procedures, establishing organization structure, obtaining right resources, selling the benefits of the department, determining the scope of the work, planning the over all audit works and quality assurance activities . Each of these activities are presented as follows:

2.2.1. Creating and maintaining an audit charter, policies and procedures

Auditor charter may be defined as the formal document that describes objectives and responsibilities of the internal audit function. It is a source of authority for the operation of the function. In addition established policies and procedures are required to guide the function of management audit. The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by the board (IIA, 1000). The chief audit executive should establish policies and procedures to guide the internal audit activity (IIA, 2040).

2.2.2. *Establishing organizational structure*

Organizational structure may be defined as the formal alignment of involved function that is believed by management to be the most effective for accomplishing assigned task or function (roots &Willson:1989).

The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited (Dessalegn & Aderajew :2007).

To perform their roles effectively the internal audit activity should be independent and internal auditor should be objective in performing their work (IIA, 1100).The internal audit also require organizational independence to accomplish its responsibilities. The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities (IIA, 1110).

In addition to organizational independence individual objectivity is also required on the part of the auditor/s. IIA standards on individual obectivity require that Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest(IIA,1120).Independence or objectivity is assumed to be impaired for instances:

- ✓ if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year (IIA, 1130.A1)
- ✓ Assurance engagements for functions over which the chief audit executive has responsibility be overseen by the internal audit activity(IIA,1130.A2)

2.2.3. Obtaining personnel, facilities and other resource

IIA standards 1200 on proficiency states that engagements should be performed with proficiency and due professional care. That is internal auditor should posses the knowledge skills and other competencies needed to perform their individual responsibilities (IIA, 1210). An operational auditing function, like any other business activity, can be no better than the quality of its personnel....in order to analyze it's the information developed, the auditor must have broad back ground of knowledge. this should include not only accounting principles and auditing techniques, but knowledge of organization principles, budgeting and forecasting methods, inventory control methods, statistics....he must have the ability to bring this knowledge to the problem he is investigating, not necessarily in an attempt to develop improved solutions, methods, or procedures, but with sufficient level of understanding to identify areas where, with more intensive studies and other technical support, he can assist management in its search for improved methods (Chon& Lindberg:1972).In addition to man power ,the principal resources, there are supplemental or related other resources that require managing for effective and efficient utilization. These includes cost related resources such as space, material and supplies ,the service of other department out side groups and expenses such as travel(Roots and Willson :1989).

2.2.4. Training

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development (IIA, 1230).

One way to advance the skill and knowledge of the auditors is through training program. Auditors training in progressive companies are viewed so seriously that it never really stops, and

programs for advanced employees receive as much attention as indoctrination training. The objective of advanced training are usually help the established auditor(1)acquire new skills and keep up new development in the field,(2)keep breast of developments in or affecting the company(Chon& Lindberg:1972).

From the standards and literatures it can be construe hat overall staffing should be based on demand for audit services. That is man power planning should based on supply and demand for audit skills; and internal auditor should apply reasonable diligence in undertaking audit engagements. Moreover, auditors should continuously upgrade their competencies; and upholding of quality monitoring measures by the chief audit executives is also imperative for the departments to add value and improve the organizations function.

2.2.5. Creating the right image for the audit function

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 (IIA.1210).

This other competencies should include skills in human relation and communication. That is the auditors should maintain good relation with auditees and should possess clear and effective oral and written communications skills. The success of the audit depends on individuals' ability to deal with people through out the audit; usually participated auditing approach helps to improve auditor/auditee relationship (Roots & Willson: 1989).

The operations auditors work forces them to deal more with operating personnel than does the work of financial auditors, who deal more with documents and with accounting and financial

personnel who speaks the same language as he. The operations auditor must therefore, if hopes to make significant and lasing contribution make a special effort to create climate of trust. People are usually eager to cooperate once they are sold on the advantage of the audit to their own job performance (Chon &Lindberg 1972).

From the above literature it can be deduced that promoting the benefit of the department minimize unwillingness of the auditees to provide information and support to the audit team viewing the work of the audit team with suspicions and feeling audit is encroaching up on their administrative authority. Such problem if not solved through crating right image for the department, will weaken the attainment of intended audit objectives.

2.2.6. Determining scope of management audit

Management audit/operational audit/performance audit as is used interchangeably for this study purpose is defined as systematic review and evaluation of organizational units (or the entire organization) operation for the purpose of determining its effectiveness and efficiency (Root & Willson: 1989, Dittenhoffer(1971)). According to Dittenhoffer the operational auditing examinations covers a review of the objectives of the firm ,its operating environment, organizational structure, operating plans and policies, its personnel and physical facilities. These are reviewed in terms of their contribution/or lack of contribution/to operating efficiency or cost saving.

What the scope of a particular audit should be may be depend on great deal on the capability of the internal audit staff and its co-workers and the attitude of the top management regarding the function. Suffice it to say that there is vast area where audit of operating efficiency can usually be made with good economic result and where they are only directly related to review of the

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financial statements (Roots & Willson). An operational audit assesses the efficiency and effectiveness of management operation; rather than the fair presentation of management's financial statements. It focus on information system and operating procedures, not on recorded dollar amounts or reported financial in formations and can address an a entities entire scope of operations or selected procedures (Ricchiute: 2003).Indeed a full scope examination of company may be impracticable owing to: the size of the company, the time and cost of service and the potential disruption to the normal operation. To ensure maximum effectiveness a preliminary review identifies the crucial function within the organization; with the objective of defining the scope of operational audit. The resource of the audit team can thus be focused on those functions of the organization which are of most concern, which are critical to future performance or which are likely to yield the best return for the audit expense (Lane:1983).

2.2.7. Planning the audit works

Nothing is good an orderly, well done audit could be that way with out planning; although the extent of planning depends on the auditors understanding and experience with the clients strategies, business size and complexity(Ricchiute: 2003). The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals (IIA, 2010).

From the literatures it can be understood that an audit department should devote considerable attention to planning if it is to be efficient and effective so as to achieve particular goals and objectives.

The operational standard No.500 of internal audit standard of government of Ethiopia, dealing with the planning aspect require the preparation of strategic plan(five year plan),periodic (annual)plan and plan for individual audit assignments(Dessaleng & Aderajew:2007). Confirming this the IIA standard on planning require the internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually (IIA, 2010.A1)

2.2.8. Quality assurance

The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the *Standards* and the *Code of Ethics (IIA,* 1300).

Internal assessments should include: Ongoing reviews of the performance of the internal audit activity; and Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the *Standards* (IIA, 1311); *and* external assessments should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The potential need for more frequent external assessments as well as the qualifications and independence of the external reviewer or review team, including any potential conflict of interest, should be discussed by the CAE with the Board. Such discussions should also consider the size, complexity and industry of the organization in relation to the experience of the reviewer or review team (IIA, 1312).

A best practice in measurement of the internal audit function involves a balanced scorecard approach. Internal audit functions are primarily evaluated based on the quality of counsel and information provided to the Audit Committee and top management. However, this is primarily qualitative and therefore difficult to measure. "Customer surveys" sent to key managers after each audit project or report can be used to measure performance, with an annual survey to the Audit Committee. Scoring on dimensions such as professionalism, quality of counsel, timeliness of work product, utility of meetings, and quality of status updates are typical with such surveys (http://en.wikipedia.org/wiki/Internal_audit).

2.3. Conducting the field work

Filed work is the term usually intended to cover the auditor's activities in evidence or fact gathering that are performed at the auditees place of business. Thus, field activities include those related to projects control and include planning, staffing the assignment, gathering evidential matters in controlled fashion, performing the work, field supervision and quality review, documenting and communicating the audit results. The following paragraphs cover each of these aspects in detail.

2.3.1. Planning the engagement

IIA standards on engagement planning (IIA. 2200) require that internal auditors should develop and record a plan for each engagement, including the scope, objectives, and timing and resource allocations. In planning the engagement, internal auditors should consider:

- ✓ The objectives of the activity being reviewed and the means by which the activity controls its performance.

- ✓ The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- ✓ The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.
- ✓ The opportunities for making significant improvements to the activity's risk management and control systems.

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2.3.2. Staffing the assignment

The IIA standards no.2230 dealing with engagement resource allocation states that Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

If recruitment and training for operation auditing have been sensibly handled, staffing the individual engagement will not present a great problem. The main factor will be personnel availability. When there are sharp divisions in the capabilities of the audit staff, however, staffing can become a problem. The question of who to put on an assignment must then be resolved by giving close attention to the correspondence between characteristics of the audit field and individual qualifications (Chon and Lindberg: 1972) according to Chon& Lindberg auditors whose qualification is extensive, specialized knowledge of operations must be used selectively. When his assignment does require skills other than his principal qualification he should be only one of the several auditors under the direction of a competent audit manager.

In staffing the specific audit engagement, the functions to be audited, the time and the capability of the staff should be considered. In addition, if some functions that require different skills are

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combined in a given engagement it can and probably should be staffed by employees having different backgrounds.

2.3.3. Gathering evidential matters and, performing the filed work

The IIA standards on engagement work program, identifying information, performing the engagement, analysis, and evaluation in general are states as follows:

Internal auditors should develop work programs, which establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. They should identify sufficient, reliable, relevant, and useful information and should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives. Thus their conclusion and engagement result on appropriate analysis and evaluation.

2.3.4. Evaluation criteria for management audit

Management audit is defined as systematic review and evaluation of organizational units (or the entire organization) operation for the purpose of determining its effectiveness and efficiency. These determinations are based on established management concepts and the presence of necessary operational controls (Dittenhoffer: 1971).

The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement (IIA, 2120). Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization (IIA2120.A2); and they should review operations and programs to ascertain the extent to which results are consistent

with established goals and objectives to determine whether operations and programs are being implemented or performed as intended (IIA, 2120.A3). Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria (IIA, 2120.A4).

2.3.5. Supervision and quality review

The IIA standard for professional practice of internal auditors 2340 on engagement supervision states that engagement should be properly supervised to ensure objectives are achieved, quality is assured and staff is developed. Ricchute(2003) define supervision as the process of directing the effort of assistances towards the objectives of engagement and determining whether the objectives are achieved. The direction of internal audit effort involves both scheduling the types and the extent of the audit to be performed and directing the application of the effort during the audit process (Churchill:966).

To sum up supervision is necessary; so that those working at all levels of audit examination understand the overall audit objectives of audit and the procedures necessary to accomplish those objectives. The work performed by assistances should be thoroughly reviewed and their conclusion should be consistent with the suggestion/recommendation communicated in an audit report.

2.3.6. *Engagement records,* ***its access and retention.***

Internal auditors should record relevant information to support the conclusions and engagement results (IIA, 2330). The chief audit executive should control access to engagement records. And should obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate (IIA,2330. A1), in addition, the chief audit executive should develop retention requirements for engagement records. These retention requirements should be consistent with the organization's guidelines and any pertinent regulatory or other requirements (IIA,2330.A2);and he/she should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the organization's guidelines and any pertinent regulatory or other requirements (IIA, 2330.C1).

From the standards, it can be deduced that the relevant audit work records should be maintained, in a manner that preserves their existences, restrict their availability and facilitate their retrieval. In addition, a critical aspect of record management is deciding on their retention periods. Record of any type should be maintained so long as they are useful in the operation of the business or so long as they comply with all applicable laws and regulation or company polices.

2.3.7. Communication of results-audit report

2.3.7.1. Exit Conference/interview

By the end of his field work the auditor will have amasses information that will form the basis of his appraisal and suggestions. The more important off those finding should be discussed with operating personnel in an exit interview. The benefits are reciprocal: local management gets a

head start on the problems disclosed and the auditors get another chance to test his finding (Chon &Lindberg: 1972)

From the literature it can be conclude that an exit conference is held to discuss the results of the completed audit and any concerns that may have arisen with the concerned parties. The exit conference provides an opportunity to resolve any question the auditee may have about the concerns raised and to address any other issues before the Audit Report is finalized.

2.3.7.2. Final audit report:

The IIA standards on communicating results, criteria for communicating, quality of communication and disseminating results require that internal auditors should communicate the engagement results and communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. Communications should be accurate, objective, clear, concise, constructive, complete, and timely; and the chief audit executive should communicate results to the appropriate parties- parties who can ensure that the results are given due consideration.

From the above requirement of the standard it can be construe that internal auditors should report the result of the engagement in light of the objective and scope of the engagement along with drawn conclusions. Thus, the evidence gathered during the engagement should be evaluated objectively in light of the overall hypothesis. In turn, proper audit conclusion should be communicated to the appropriate levels of management and within a reasonable time period.

2.4. Post audit review/follow up activities

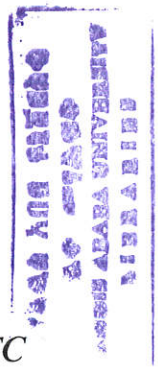
The IIA standards dealing with the monitoring progress states that the chief audit executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action (IIA, 2500.A1)

One of the aims of performance audit is to promote the achievement of good value for money throughout the public service. Following up the recommendations in the performance reports is a means of ascertaining whether recommendations have been taken care of or addressed by the audited bodies or auditees. The post audit review should takes place soon after the agreed implementation deadline to which management has committed in the management response. During the review, Internal Audit tests the effective implementation of each audit recommendation. If recommendations have not been satisfactorily addressed, a second Post-Audit Review is scheduled. This process continues with successive Reviews until either the recommendation has been implemented or the circumstances giving rise to the concern have changed.

Chapter –three

Data presentation and analysis

This chapter deals with overview of the establishment of the management audit in each enterprises understudy (EAL and ETC); and the presentations of data and analysis.



3.1. Overview of establishment of management department: EAL and ETC

3.1.1. Establishment of management audit department: Ethiopian Airlines

At Ethiopian Airlines, the structure and the scale of operation of internal audit has changed at different times. Currently the audit function of Airline has organized at vice president level reports to the Board of Directors functionally, and the chief executive officer administratively. The BOD has also finalized the draft proposal to establish an audit committee, within the board, to deal with internal audit matters.

Under the V/president of internal audit, there are three directorates, namely, corporate and operational audit director, IT and systems audit director, and corporate quality audit director. The corporate and operational audit, where in which the management audit is the major part, constitutes two managers: the managers of the corporate audit and operational audit. The Ethiopian airline has started the exercise of operational audit in the form of performance audit since 1995.

Corporate and operational audit has eleven staff with multidisciplinary composition. The BOD approves the plan and budget for the audit. Based on the approved plan and budget, the department determines the scope of the audit. In addition, the summarized plan, progress reports are made to the chief executive officer and BOD on quarterly basis.

3.1.2. *Establishment of management audit department: ETC*

It was in 1953 that internal audit was established by giving it a status of section under finance division. To ensure its independence, in 1961 it was responsible to the general manager in the name of internal audit office. In 1968, it was upgraded to branch status "internal audit branch" keeping the reporting channel as before (to the general manager). As per the restructuring of ETC in 1997, the internal audit function was divided in to two parts 'financial audit and management audit and inspection division". Both divisions were reported to the general manager. Soon after some times the management audit and inspection department cease to exist.

In the year 2003, complying with government circular and better serve the corporation, the audit functions have been reorganized on departmental levels having two divisions under it: financial audit division and management audits and inspections division .The department heads being responsible to the BOD. Currently the management audit department has high responsibility in assessing the operational activities of the corporation .It is therefore, believed that the audit function has been contributing a lot to economy, efficiency, and effectiveness of the Corporation.

3.2. Data presentation and Analysis

To analyze the data accumulated for the study, in formations obtained were categorized under twelve groups, based on the area deemed to represent potentially significant for analysis and inferences (shown in Exhibit-1-to exhibit-12) as follows:

The first category reflects the level of education and the job title of the respondents in their organization. The second deals with organizational and individual independence of auditors; it composed of question 1 through 5. The third group, question 6 through 12 portrays staffing the

management audits department. The fourth group question 13 through 16 describes staff experience and continuous professional development. The fifth category, questions 17 and 18 concerns existence of internal audit charter and manual. The sixth group questions 19 through 21 describe planning audit works .the seventh group concerns engagement planning, work program and field supervision and review: includes question 22 through 25. The eighth group deals with attitude of auditee towards auditor/s include question 26 and 27. Group nine questions 28 and 29 embody the scope of management audit works. The tenth group question 30 and 31 represents communication of results. Group eleven deals with follow up activities; composes question 32 and 33. The final group question 34 and 35, are one primarily interest from the audit work documentation and retention practices of the enterprises. (Refer the questionnaires to management audit and interview question to audit directors in appendix -1 and-II)

Exhibit-1
Educational level and job title the respondents:

Enterprises	*Educational levels*	*Job title*	*NO. of respondents*
EAL	*Diploma*		0
	Degree	Auditor s/auditor Auditor in charge Manger	3 5 1 2
	other		0
Total			**11**
ETC	*Diploma*		0
	Degree	s/auditor programmer programmer-II electrical eng J/auditor	1 3 2 2 1
	other		0
Total			**9**

As already summarized in Exhibit-1, this study distributed questionnaires to twenty management/operational auditors (nine Ethiopian Telecommunication Corporation, and eleven Ethiopian Airlines). Of the questionnaires distributed to Ethiopian Airlines management auditors, one was not included for the study, as the staff has newly transferred to the department .Thus, responses to nineteen of twenty questionnaires distributed formed basis for the analysis reported up on here. The total for each enterprise has shown in the far right hand column of exhibit-1.

3.2.1. Organizational and individual independence

The summary to the questionnaires response on organizational and individual independence are shown in exhibit-2 along with other variables dealing with same issue in some way. All respondents from both enterprises responded that the department directly report to BOD and this is appropriate level of reporting to assure organizational independence (refer appendix-III) for internal structure of each enterprise management audit department).

As can be seen from the internal structure of both enterprises the internal audit is accountable to both Board of Directors (BOD) and Chief Executive Officer (CEO) of the enterprises. The internal audit department of each is answerable to the BOD functionally and to CEO administratively- this shown by using broken line on the structure. That is, the department directly reports their audit works to the BOD and the CEO just like other departments of the enterprise administers them. Such organization structure is sufficiently high to afford an atmosphere of objective and uninhibited appraisal as reporting of findings is made to the BOD; and hence no influence from the units being audited and/or CEO.

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Exhibit-2

Organizational and individual independence:

Enterprises	*No. of respondents*	***Questions***	***Responses***		
		1. *your department reports to*	BOD	CEO	Other
EAL	10		10	0	0
ETC	9		9	0	0
		2. *Do you believe the department report to an organizational level high enough to assure independence of operation?*	yes	No	
EAL	10		10	0	
ETC	9		9	0	
		3. *If your response to question 2 is" No" what do you suggest is appropriate level of reporting status of management audit?*	Suggestions:		
EAL	0		0		
ETC	0		0		
		4. *Are you promoted to the management audit department from other department of the enterprise?*	Yes	NO	
EAL	10		6	4	
ETC	9		1	8	
		5. *If "yes" to Q.4, were You assigned to the area where you previously worked within one year of your transfer?*	Yes	No	
EAL	6		0	6	
ETC	1		0	1	

Still another aspect of nurturing independence is precautions that has been taken by the audit departments not to assign the individuals (audit staffs); particularly staffs, which were transferred to the management audit department from other department of the enterprises either through parallel transfer or through promotion, in the area where he/she had previously assumed responsibility. As can be observed from exhibit-2 management audit department of Ethiopian Air Lines does have six employees out of ten employees who had transferred from other department of the enterprises; and of Ethiopian Telecommunication Corporation's have one transferred staff.

However, the responses show that no one has so far assigned to the area where he/she had formerly worked. The interview with audit directors of both enterprises reveals that a great care has taken at least not to assign employees in their previous work unit within one year of their transfer.

From the analysis, it can be construe that the enterprises management/operation audit department reports to high level; hence promotes organizational independence and use employees' rotation to foster individual independence while undertaking the audit engagements. In this, the enterprises management audits conform to the requirement of IIA standards on the subject of organizational and individual independence (refer section 2.2.2).

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3.2.2. Staffing management audit department

Internal audit should be appropriately staffed in terms of numbers, qualifications level and experience having regard to its objective and audit standards. There are eleven auditors and nine auditors in the management/operational audit department of the EAL and ETC respectively. In both enterprises, all auditors do have first-degree qualification in different fields of study (refer exhibit-1 for their educational levels).

As already, summarized in exhibit -3, the majority respondents responds that both the Ethiopian Airlines and Ethiopian Telecommunication Corporation's management audit departments estimates human resource requirement in advance, job specification that specify suitable educational training and experience of individual who should be hired for the job is prepared and communicated to the human resource department of each enterprise to ensure match between the staff and audit demand.

Exhibit-3

Staffing management/operational audit department:

Enterprises	*No. of respondents*	*Questions*	*Responses*			
		6. Does the department properly estimate the work force requirement in advance?	***Yes***	***No***	*Don't know*	
EAL	10		7	3	0	
ETC	9		6	2	1	
		7. In hiring the new auditor do the enterprise based on demand for audit service.	***Yes***	*No*	*Don't know*	
EAL	10		9	1	0	
ETC	9		6	0	3	
		8. Does the department prepare job specifications that specify suitable educational training and experience of individual who should be hired for the job?	*Yes*	*No*	*Don't know*	
EAL	10		9	0	1	
ETC	9		7	0	2	
		9. Does the department provide you and your staff with job description?	*Yes*	*No*		
EAL	10		10	0		
ETC	9		9	0		
		10. What is your educational background?	*Act.*	*Mgt.*	*IT*	*Econ.*
EAL	10**		6	3	2	2
ETC			2	0	5	2-eng
		11. Do you think the existing professional mix (disciplinary composition) and number of management audit staff is adequate?	*Yes*		*No*	
EAL	10		3		7	
ETC	9		***3***		*6*	
		12.if your response to question-11 is "No" what do you suggest:	*Suggestions:*			
EAL	7		***Other ,like engineering, law, etc are required***			
ETC	6		***ACCT, Mgt, civil Eng.***			

*** Three employees are qualified in more than one discipline*

The employees posted in the performance audit of both enterprises are no doubt good selection of multidisciplinary. However, the response to close and open ended questions from management auditors of both enterprises (exhibit-3) reveals that still in this introduction of modern audit techniques ensuring high quality audit require quality human resource mix.

The interview with both enterprises audit directors supported the comment of the management audit staff. In both enterprises under study, human resource is hired at central level-by human resource department. Therefore, the management audit department estimates human resources required for the department, details the criterion and communicated to the human resource department to hire the employees to the very need of the area. How ever, because of budget shortage, lack of applicants with the specified criteria by existing salary and benefit packages of the enterprises and so forth, requested employees with different disciplines had not held by departments. Thus, the existing mix cannot be said enough for the management audit department to appraise the wide-ranging operation of the enterprises.

The interview with audit director and the review of human resources plan of the enterprises (plan of 2000 E.C) revealed the number of current management auditors in ETC was small. The plan shows fifteen staffs are required for management audit department. The current numbers of management audit staff of the corporation are nine; which is less by six employees from plan. Consequently, it may not possible for this small number of auditors to guide, supervise, monitor and check quality and liaise with an audited body to ensure good audit work. Therefore, sufficient number of auditors rationalizes the staff and work requirement ratio in this Corporation.

3.2.3. Continuous professional development: Training

One of the main impediments in smooth implementation of management/operational audit is insufficient knowledge and expertise to conduct high quality audit work. Therefore, besides acquiring qualified auditors from different disciplinary mix, it is imperative to upgrade their skills through continuous training and professional development. As can be observed from exhibit-4 almost all Ethiopian Air Lines management auditors have more than two years of service in the department; whereas, the majority of management auditors of Ethiopian Telecommunication Corporation do have less than two years of service in the department.

In the Ethiopian Air Lines good number of existing staffs (eight out of ten) are provided with training in the management audit area. Response to the questionnaires shows that one of the eight staff who were provided with training claim the training is insufficient; thus, should be given on continuous basis(refer exhibit-4). The interview result also confirms the department makes effort to give short term training, develop training manuals; conferences and etc. to improve the acquaintance of employees in the management audit area.

At the Ethiopian Telecommunication Corporation, two employees responded that they were attend short-term training courses and shared experience with good practicing enterprise like Ethiopian Airlines. Nevertheless, as could be observed from exhibit-4 this training is replied as not enough for clear understanding of and application of this modern addition to internal audit works (management audit).

Exhibit-4

Experience and training: continuous professional development

Enterprises	*No. of respondents*	*Questions*	*Responses*		
		13. *Number of years you have worked in the department (management audit).*	*< 2 years*	*2-5 Yrs*	*≥5 yrs*
EAL	10		1	5	4
ETC	9		7	2	0
		14. As management auditor, were you given an opportunity for formalized program of continuing education and /or training on the area?	*Yes*		*No*
EAL	10		8	2	
ETC	9		2	7	
		15. If your response to Q.14 is "YES", do you think the training is sufficient?	*Yes*		*No*
EAL	8		7	1	
ETC	2		0	2	
		16. *If your response to Q.15 Is "NO", what do you suggest*?	*Suggestions:*		
EAL	1		*it should be on continuous basis*		
ETC	2		*It should be on continuous basis .*		

Response to interview with Ethiopian Telecommunication Corporation audit director reveal that the management audit department is highly characterized by high staff turnover. Thus, there is no experienced and trained staff. On the top of this, audit works is understood solely as the work of accounting professionals ;and the existing employees do not want to be titled as an auditor(refer exhibit-1 for the job titles of ETC management auditors). Because of the aforementioned reason, at present there is no precedent of high quality operational audit performed by experienced staff to refer to by existing inexperienced auditors. In general, in this department the audit process, from initial phase to finalization of the audit report, they (the staff) have no good example to follow.

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Given the above situation, and inexperienced staff, integrated approach to select auditors to be trained according to the need of the department and retaining experienced employees is therefore imperative; but the Ethiopian Telecommunication Corporation management audit department did not do much in this regard.

3.2.4. Existence of internal audit charter and manual

Internal audit manual is required to properly regulate internal audit activities, to enhance adherence to IIA standards, to provide common guidance in practicing internal audit works, and to help boost the proficiency of audit staff by introducing update knowledge and principles. The responses to the questions (exhibit-5), and evidence from document review confirm that there is updated internal audit manual in both enterprises (updated on 2005 and 2004 for ETC and EAL respectively).

Exhibit-5
Existence of internal audit manual

	No. res.	*17. Does the management audit department possess approved audit manual?*	*Yes*	*No*
EAL	10		10	0
ETC	9		9	
		18. If your response to Q.17 is "NO", what is used by department as proper guidance for the staff?	*Remark:*	
EAL	0		0	
ETC	0		0	

3.2.5. Planning the audit works

The attempt to conduct management /operational audit with out determining a logical framework will mislead the work force; and the ultimate target of good audit will be compromised. All Ethiopian Airlines management auditors responded that the management audit department prepare plan for audit works. Six of ten respondents indicated that the department prepare project, annual, and strategic plan. All but two management auditors responded the plan is prepared based on both risk assessments and prior audit experience. This is summarized in exhibit-6 along with the response on the other variables dealing with audit planning. A response to questionnaires by majority management auditors of the enterprise was supported by interview result with audit director.

Exhibit-6
Planning:

Enterprises	*No. of respondents*	***Questions***	***Responses***				
		19. *Do the management audit department plan for the audit work?*	*Yes*	*No*			
EAL	10		10	0			
ETC	9		9	0			
		20. If your response to question #19 is "yes," what type of plan is prepared?	*project* 1	*annual* 2	*strategic* 3	*Both 1&2*	*All*
EAL	10		0	0	0	3	6
ETC	9		0	0	0	9	0
		21. *If your response to question #19 is "yes", how the departments identify priority areas to be included in audit plan?*	*Experience*	*Risk assessments*	Experience+ risk ass.		
EAL	10		0	2	8		
ETC	9		0	0	9		

To further, corroborate the information from the questionnaires and interview responses the study reviewed the Ethiopian Airlines management audit departments 2006/2007 plan and strategic plan from 2005 to 2010 and observed that the plan is comprehensive enough.

As is indicated on the response summary (exhibit-6) and supported by interview and document review (annual plan 0f 2006/7) results Ethiopian Telecommunication Corporations management audit department prepare specific project plan and annual project plan only. The department does not prepare strategic plan, which can facilitate assessments of high –risk areas that call for audit consideration in the long- run. The specific project and annual plans are prepared based on past audit experience and from assessments for risk-through preliminary review by auditors and operational area managers' request to inculcate the area where they want to be appraised by independent management auditor of the enterprise.

3.2.6. Engagement planning, work program and field supervision and quality review

All management /operational auditors of Ethiopian Airlines responded their department plan for resources (human, material, and financial) requirement, call for preparation of audit program before engaging in specific audit projects. They also replied, their functions be closely supervised, and their works has been adequately reviewed. Exhibit-7 summarizes the responses.

The interview results with Ethiopian Airlines audit directors confirm that for each engagement the audit mangers supervise projects, assist the auditors, get hold of progress report, and undertake through quality review of the audit working papers and draft audit reports to ensure that audit tasks has been performed as planned and is documented appropriately.

Of Ethiopian Telecommunication Corporation's management auditors, all but two responded that the department plan for resource requirement in advance. The department also requires the auditors in charge to prepare the audit program and get approved by audit director before engagement in specific project. All respondents agree that during engagement in the field their activities is not closely supervised, and their work is not adequately reviewed by the department. The reason mentioned by five respondents indicates there is lack of experienced staff and practices in the departments to undertake the supervision and review activities in required way.

Exhibit-7

Engagement planning, work program and supervision:

Enterprises	*No. of respondents*	***Questions***	***Responses***	
		22. *Does your department plan for resource (human, material, and financial) requirement before engaging in specific audit projects*?	*Yes*	*No*
EAL	10		10	0
ETC	9		7	2
		23. Does your department require preparation of audit program to undertake specific audit project?	*Yes*	*No*
EAL	10		10	0
ETC	9		9	0
		24. *During engagement in the field, do yours and your staff members function closely supervised; and their work adequately reviewed by more experienced person?*	*Yes*	*No*
EAL	10		10	0
ETC	9		0	9
		25. *If your response to question #24 is "No" please, specify the possible reasons.*	*Reasons:*	
EAL	0		0	
ETC	5		*No such practice, no experienced staff*	

The interview with Ethiopian Telecommunication Corporation audit director showed that plan for resources requirement for specific audit project have been prepared in advance as much as possible. For example, in assigning staff the effort has made to assign inexperienced employees with relatively experienced employees. The department also requires the auditors in charge to prepare audit work programs, and approve looking the comprehensiveness of it. However, during engagement, the auditors' functions do not closely supervised, and more experienced person does not review their work. At the completion of the fieldwork, the review has done merely to ensure the conclusion and findings linked with sufficient and appropriate evidence. After the review, the audit director decides whether to make changes prior to issuance of the final report.

The review types undertaken by ETC management audit department, seems an attempt to refrain from responsibility/accountability for any deficiency on audit reports, than emphasizing on maintaining the quality of audit works.

Given inexperienced audit staff (refer response to question 13, exhibit-4) lack of field supervision and quality review is a great problem to attain the purposes of a given audit engagement on timely basis. Because field supervision assist auditors by providing them with adequate guidance and motivation to improve the quality of their work; and serves the purpose of proper audit management to maintains quality audit report inline with standards. It also helps to ensure the quality of work done at different stages of audit including timely submission of report. However, ETC management audit department do not exercise effort to solve the problem in this regard.

3.2.7. Auditee attitude towards auditor/s

Effective audit works require the auditors to get cooperation from auditee; so that they get full and unobstructed access to all activities, records, and properties to substantiate the intended objective of audit project. As can be seen from the summary of response in exhibit-8, half of Ethiopian Airlines and seven of nine ETC management auditors responded "unfavorable" to question concerning auditee attitude towards auditors. The reason respondents gave to open ended questionnaires show that the auditee misunderstood the auditors and their work. They were not seen auditors as having consulting type of work as major part of their duties, but rather as faultfinders. Thus, there is tendency to be unwilling to provide evidence and support the auditors /audit team.

Exhibit-8
Auditee attitudes towards auditor/s:

Enterprises	*No. of respondents*	***Questions***	***Responses***		
		26. *from your experience in the area the attitude of auditees to the auditor/s is*	*favorable*	*Un favorable*	*neutral*
EAL	10		3	5	2
ETC	9		1	7	1
		27. *If your response to question #26 is "not favorable", what do you think is the reason and what do you suggest to overcome such challenges?*	*Suggestions*		
EAL	2		*Aditee afraid of recommendation, understood auditor as fault finders...*		
ETC	4		*Misunderstanding of auditors/audit work*		

The interview with both enterprises audit directors supported the fore mentioned responses of management auditors. They forwarded three main reasons for unfavorable attitudes of auditees to auditors. *First,* management auditing is pioneering concept and new additions to internal audit works, and hence lacks familiarity on the part of operational unit managers. *Second,* when auditors assigned to evaluate operations of departments they are opt to be regarded as lacking competencies; and *third,* management of area being audited knows at least subconsciously that auditors are looking for inefficiencies *and that some can and will be found.*

The fore mentioned reason for "*unfavorable*" attitudes of auditee towards auditors mainly seems to arise from information gap among the auditors and/or audit department and audited bodies in both enterprises. For the audit department to attain its ultimate goal this hole must be bridged and consequently auditors will catch full collaboration of the audited body. In other words, for the auditors to effectively undertake their engagement, environment conducive to professionalism shall be created. Nevertheless, both enterprises management audit departments did not do much and plan to do much in this area.

3.2.8. The scope of management audit

Exhibit-9 summarizes the question as to the scope of management audit in both enterprises. The data from such analysis facilitate an auditing process required for management audit. As indicated on the exhibit none of the respondents in both enterprises supported the audit of performance or means separately. This was also supported by the interview with audit directors.

In request for ranking of the assessments concerning the management functions the majority (seven out of ten) EAL management auditors responded both performance and means have equal

rank. It was confirmed by interview that the emphasis /evaluation concern of management audit of EAL is on auditee attainment of the objective (performance), risk and control system (the means or the system) that is used by the audited body.

Exhibit-9

Scope of management audit work

28. Your recommendation concerning management function includes:

	Number of respondents	
Possible recommendations	***EAL***	***ETC***
Performances only	***0***	***0***
Means utilized only	***0***	***0***
Both performance and means	***10***	***9***
Other	***0***	***0***

29. *Which of the following assessment concerning management function you think has ranked first by your department?*

	Number of respondents who ranked first	
assessments	*EAL*	*ETC*
Performances	*1*	*7*
Means utilized	*2*	*1*
Both performance and means are ranked equally	*7*	*1*
No ranking provided	*0*	*0*

In case of ETC, ranking of management audit assessments, there was more support for performance on its own than for the means on its own. The reason indicated by audit director confirmed that the audit staff lacks experience to properly appraise the system/means utilized by audited body; rather they emphasize assessments of objective attainment comparing actual result with the anticipated objective of the auditee .However, the purpose of management audit would

be to explore inside the system and discover exactly how it produces results. With appropriate controls, to forestall errors, it could be assumed that the management function is being performed adequately. Thus, the means utilized by audited body should also be given equivalent emphasis as the performance.

3.2.9. Communication of audit results

The tenth grouping of questions is intended to assess, in some way, the means management auditors communicate their audit findings. The responses on this are summarized in exhibit-10. All management auditors of both enterprises responded that there is practice of holding exit conference to get the opinion of auditee on the concluding remarks and recommendation in the draft audit report.

The evidence from the interview with audit directors of enterprises reveals the practice of holding exit conference is similar for both enterprises. Up on completion of audit work, the auditors of both enterprises are required to hold exit conference with auditees and obtain minutes signed by all parties participated on the conference. The minute then is attached to the final audit report and serve as evidence showing agreement was reached on audit findings between auditors and auditee up on completion of the audit work. This practices rates reasonably in both enterprises, and its benefit is two fold. It helps the auditor to resolve their fault(if any),and enable the audited bodies to take immediate action on the problems raised rather than waiting until the final audit report is addressed to them.

As can bee seen from the summary response to questions, which is supported by interview result with audit directors of both enterprises, up on the completion of the field works, following exit conference final audit report is prepared and submitted to audit directors on prefixed time frames

for both enterprises (within ten day of field work completion in case ETC and a day specified on audit program for EAL). This does have positive impact on the departments audit team as it enable them communicate the results on timely basis.

Exhibit-10
Communication of audit results:

Enterprises	*No. of respondents*	*Questions*	*Responses*	
		30. *Upon completion of audit project, do you have practice of making exit conference on conclusion and recommendation with auditees before final audit report?*	*Yes*	*No*
EAL	10		10	0
ETC	9		9	0
		31. At the completion of specific audit project, do you required to communicate engagement result on prefixed period for preparing and submitting the results?	*Yes*	*No*
EAL	10		7	3
ETC	9		9	0

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3.2.10. Follow up/ post audit review activities

The management audit report of both enterprises (ETC and EAL) includes cover letter with final report signed and submitted by auditors to audit directors. Up on the completion of a given engagement, the audit directors communicate the summary of finding and recommendation through transmittal letter to BOD. The audit report including letter of transmittal signed by the director, a summary of finding and recommendations along with final audit report is then addressed to CEO, and the auditee head, retaining a file copy for the department.

The CEO, then informs the auditee head to give response to audit findings within fifteen and thirty days for ETC and EAL respectively. As and when the response is made by auditee the

management audit department plan to make follow up to ensure whether corrective action are taken as per the recommendation.

Exhibit-11
Progress monitoring/ post audit review/follow up

Enterprises	*No. of respondents*	***Questions***	***Responses***	
		32. Does your department perform follow up on deficiencies in company system, methods and/or procedures noted in prior audit?	***Yes***	***No***
EAL	10		10	0
ETC	9		9	0
		33. If your response to Question #33 is "No" how your department monitor and ensure that action have been effectively implemented or not?	*Comment/s:*	
EAL	o		o	
ETC	o		o	

As is summarized in exhibit -11, the management auditors of both enterprises responded the department make follow up on deficiencies in enterprises system/method/procedure noted in prior audit.

The interview responses to and document review reveals that management audit department of ETC do not have file for formal follow up to point the status of past audit results unlike EAL's management audit department. Lack of follow up files not only create holes for audited bodies to be left with out perusing follow up on their performance by the audit department, but also, is hard to know whether response is given by auditee on the findings of the auditors . The occurrences of any of the aforementioned problems possibly weaken the vitality gained by audit recommendation. Moreover, if past audit finding are not cleared it creates the propensity of finding the same problem in subsequent audit of the unit.

3.2.11. Audit work documentation and retention practices:

These last groupings of responses to questions indicate in some way, how the enterprises documented their audit works and their retention practices. The summary of the responses are indicated in exhibit-12.

As can be seen from the summary, both enterprises management auditors responded that their enterprises properly document their audit works. However, the response to open ended questionnaires and observation revealed EAL's management audit department does have files to document and retain both audit reports and working papers. Whereas the ETC's management audits department documents and retain the audit reports only. That is the ETC management audits department does not document working paper at the department level; rather it remains under the control of management auditors. Such trend may entail the difficulty of loosing the working papers by the time the employee left the department.

Exhibit-12
Audit work documentation and retention practices:

Enterprises	*No. of respondents*	*Questions*	*Responses*	
		34. Does your department (management audit) properly document audit works?	*Yes*	*No*
EAL	10		10	0
ETC	9		9	0
		35. please note down about your departments document(e.g. audit report, working papers)documentation/retention practices;		
EAL		***note/s:*** *Both audit report and working papers are retained as per the rule of the enterprise.*		
ETC		*Working paper is not documented; reports are documented & retained for as per the rule of the corporation.*		

Working paper aid future planning ,facilitate third party review,provide support in circumstances such as law suits, and demonstrate the management audit compliance with the IIA standards for professional practice of internal auditors.(refer section 2.3.6).Thus , it is imperative to document and retain the audit work documents under the control of the departments.

Chapter-four

4. Summary of finding and recommendations

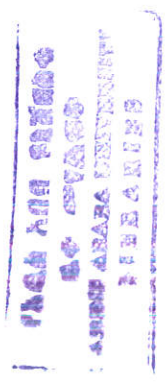
Based on the analysis of the information obtained from the two public enterprise (EAL ETC), mentioned above the following findings were obtained.

Management audit of both enterprises lacks sufficient required disciplinary mix. The EAL management audit staff has sufficient number; where as the present number of management audit staffs of ETC are below the human resources plan of the department. This undoubtedly limits the capability of providing valuable examination of wide ranging operational units of the corporation.

Unlike the management audit staff of EAL, management audit staff of ETC do have less than two years of experience and almost all (seven out of nine)employees doe not so far given opportunity for training in the area; thus, required to upgrade their competences.

Management department of EAL prepares all types of audit work plan (project, annual and strategic plan), where as of the ETC's prepare all but strategic plan which facilitate the assessments of high risk area that will call for audit attention in the long run, and the can enable the department to estimate the resources requirement in advance is not prepared.

Contrasted to management audit department of the EAL's, of ETC's lacks strong audit management, which will supervise and review the quality of audit works. At ETC, if review has made, it is at the office level merely to see whether the findings indicated by the auditors were



Based on the finding summarized, the study provides the following possible suggestion to recommendable findings.

- Management audit of both enterprises (EAL, and ETC) lacks sufficient disciplinary mix in management audit staff. However, the strong stand from the management auditors on the need to make the management audit function is a pool of expertise of relevant disciplines .Thus, it is suggested to make the management audit division to include auditors with engineering, law back ground for Both enterprise and accounting back ground specifically for ETC's management audit department.

- The ETC's management audit department does have insufficient number of management auditors. This certainly limits the capability of providing valuable examination of wide ranging operational units of corporation. Therefore, sufficient number of auditors rationalizes the staff and work requirement ratio in the corporation.

- At Ethiopian Telecommunication Corporation, experienced and trained work forces have been lacked in management audit department; hence require upgrading their competencies to adhere to IIA standards for proficiency and continuous professional development. To solve this problem ETC's management audit department can do any one or more of the following:
  - ✓ Develop training curriculum in collaboration with the corporation's training institute
  - ✓ Develop the management audit guide lines for different unit of the corporation
  - ✓ Arrange for short term training, organized by EAL's, chamber of commerce, management institute
  - ✓ Establish knowledge sector-through:
    - o Collecting books, periodicals, manuals and reference materials

- Subscribe for journals on management /operational audit

❖ ETC's management audit department does not prepare strategic plan. Such plan facilitates the assessments of high-risk area that call for audit consideration and form the backdrop for other types of plans (annual plan and specific project plan). Therefore, the department should systematically assess all relevant organizational units in terms of company policy, procedures, system and controls, rank area in terms of importance, and develop overall audit coverage over specified period.

❖ ETC's management audit department does not have strong audit manager that will supervise and review the quality of audit works in the field. Thus, the quality of work at different levels in the field may be compromised. Therefore;

- ✓ There should be in-built system of direct supervision and quality review to control, assist and motivate the team at the field level
- ✓ Motivate auditors to request for assistances for any unclear issue they encountered in the field.
- ✓ Emphasize the quality of work as result(report)

❖ In both enterprises, the auditee attitude towards auditor/s was found unfavorable. This problem mainly rose from information gap between the auditor/their works and the auditee. As the getting full cooperation of the auditee is imperative for effective accomplishment of audit works, the enterprises should:

- ✓ Build awareness among the key stake holders through:
  - Organizing seminars, work shops and frequent meeting with management of auditee

- Make entry conference, to familiarize the auditee with audit objectives
- Be responsive to auditee questions and concerns

❖ ETC management audit department give more support to performance appraisal than means/or system used by operating unit managements. The purpose of management audit, however, is to explore inside the system, appraise the risk, and control available (means), and attainment of objective (performance). Thus, attaching comparable weight to both, results in compliance to IIA standards.

❖ The management audit department of ETC does not have formal follow up file to detail the status of past audit. Lack of follow up files not only create holes for audited bodies to be left with out perusing follow up on their performance by the audit department, but also, is hard to know whether response is given by auditee on the findings of the auditors. Therefore, the department should:

➢ Device ways to reasonably assure records maintained ,documents the finding and any remedial action for audit recommendation through:

✓ Devising and maintaining report follow up files

✓ Maintain number of official reports of files to help control its content and to facilitate locating specific reports

❖ ETC's management audit department, does not documented and retain working paper, which aid future planning, third party review, and support in case of lawsuit at departmental level. These results in deviation from the requirement of IIA standards for audit work documentation and retention (refer section 2.3.6). Therefore The department should;

- File the working paper by work authorization number assigned during project initiation for identification and prompt access by authorized personnel
- documented ,and retained the working papers consistent with corporation guide lines and any pertinent legal or other requirements

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Appendix-I

Addis Ababa University
School of graduate studies
Department of Business Administration

Questionnaires filled by management /operational auditors.

Part-1 General attributes of the respondent

- Put "√" mark in the box of your choice

1. Name of your enterprise:

Ethiopian Telecommunication corporation ☐

Ethiopian air lines ☐

2. Sex

Male ☐ female ☐

3. What is your level of education?

Diploma ☐

Degree ☐

Masters ☐

Other (please specify)_____

4. What is your current job title?

Junior auditor ☐

Auditor ☐

Senior auditor ☐

Other (please, specify)_____

Part-II. Questions related to management audit application.

- ***Put "√" mark in the box of your best choice***

1. your department reports to

   Board of directors ☐

   General Manager (CEO) ☐

   Other (please, specify) ☐

2. Do you believe that management audit function report to an organizational level high enough to assure independence of operation?

   Yes ☐ No ☐

3. If your response to question"2" is" No" what do you suggest is appropriate level of reporting status of management audit?

   _____

   _____

   _____

4. Are you promoted to the management audit department from other department of the enterprise?

   Yes ☐ No ☐

5. If your response to question #4 is "yes" were you assigned to audit the area where you had previously worked assuming responsibilities and/or consulting Auditees in designing system within one year of your transfer?

   yes ☐ No ☐

6. Does the department properly estimate the man power requirement in advance?

   Yes ☐ No ☐ I don't know ☐

7. In hiring the new auditor do the enterprise based on demand for audit service?

   Yes ☐ No ☐ I don't know ☐

8. Does the department prepare job specifications that specify suitable educational training and experience of individual who should be hired for the job?

   Yes ☐ No ☐ I don't know ☐

9. Does the department provide you and your staff with job description (outlines the duties and responsibilities of member of staff)?

Yes ☐ No ☐

10. What is your educational background?

Accounting ☐

Management ☐

Information technology ☐

Engineering ☐

Other (please, specify) _____

11. Do you think the existing professional mix (disciplinary composition) and number of management audit staff is adequate?

Yes ☐ No ☐

12. If your response for question #11 is "No" what do you suggest?

_____

_____

_____

13. Number of years you have worked in the department (management audit).

Less than two years ☐

2-5 years ☐

5 years and above ☐

14. As management auditor were you given an opportunity for formalized program of continuing education and /or training on the area?

Yes ☐ No ☐

15. If your response to question #14 is "yes" do you think the training is sufficient enough to enable you perform the operation of management audit?

Yes ☐ No ☐

16. If your response to question #15 is "No" what do you feel is appropriate?

_____

_____

_____

_____

17. Does the management audit department possess approved audit charter and manual?

Yes ☐ No ☐

18. If your response to question #17 is "No" what is used by the department as proper guidance for the staff?

_____

_____

_____

_____

19. Do the management audit department plan for the audit work?

Yes ☐ No ☐

20. If your response to question #19 is "yes" what type of plan is prepared?

Specific audit assignment plan only ☐

Annual plan only ☐

Strategic plan (five year plan) only ☐

Specific engagement and annual plan only ☐

All plan type is prepared ☐

21. If your response to question #19 is "yes" how the departments identify priority areas to be included in audit plan?

From past audit experience ☐

Risk assessment (Preliminary review) ☐

Both past experience and risk assessments ☐

Other(please,specify)_____

_____

_____

22. Does your department plan for resource (human, material, and financial) requirement before engaging in specific audit projects?

Yes ☐ No ☐

23. Does your department require preparation of audit program to undertake specific audit project?

Yes ☐ No ☐

24. During engagement in the field do yours and your staff members function closely supervised, and their work adequately reviewed by more experienced person?

Yes ☐ No ☐

25. If your response to question #24 is "No" please, specify the possiblereason/s _____

26. from your experience in the area the attitude of auditees to the auditor/s is

Favorable ☐ Not favorable ☐ neutral ☐

27. If your response to question#26 is "not favorable" what do you think is the reason and what do you suggest to overcome such challenges? _____

28. Your recommendation concerning management function includes

Management performance only ☐

Means utilized by management only ☐

Both performance and means ☐

Other(please,specify) _____

29. *Which of the following assessment concerning management function you think has ranked first by your department?*

Performances ☐

Means utilized ☐

Both performance and means are ranked equally ☐

No ranking provided ☐

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30. Upon completion of audit project, do you have practice making exit conference on conclusion and recommendation with auditees before final audit report?

Yes ☐ No ☐

31. At the completion of specific audit project, do you required to communicate engagement result on prefixed time frame for preparing and submitting the results?

Yes ☐ No ☐ No prefixed time frame ☐

32. Does your department perform follow up on deficiencies in company system, methods and/or procedures noted in prior audit?

Yes ☐ No ☐

33. If your response to Question #33 is "No" how your department monitor and ensure that action have been effectively implemented or not?

_____

_____

_____

34. Does your department (management audit) properly document audit works?

Yes ☐ No ☐

35. please note down about your departments document(e.g. audit report, working papers)documentation/retention practices

_____

_____

_____

Appendix-I

Addis Ababa University
School of graduate studies
Department of Business Administration

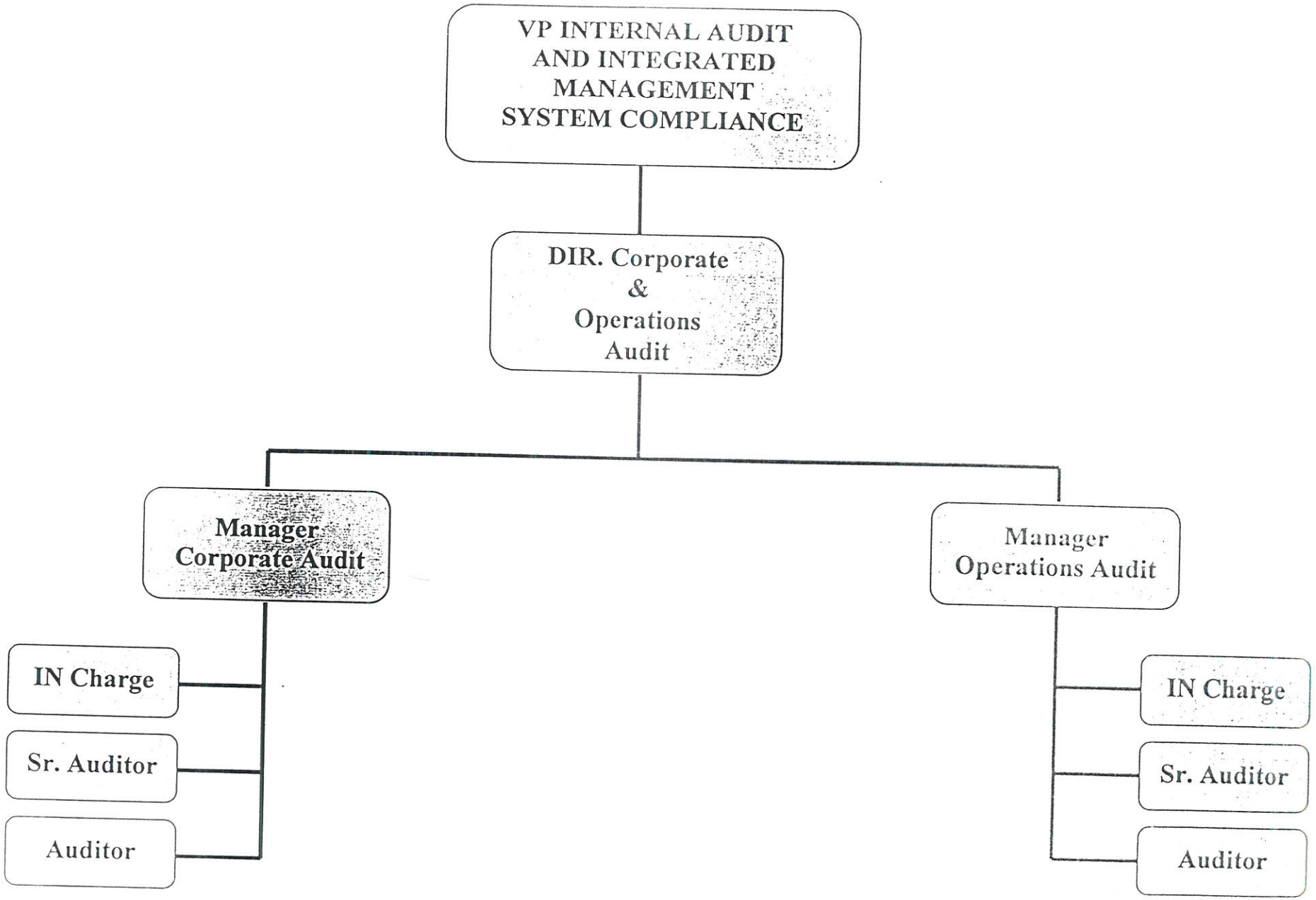
Interview question for audit directors

1. Name of your enterprise:

   Ethiopian Telecommunication corporation☐

   Ethiopian air lines☐
2. What is your level of education and current job position?
3. Do you think the management audit current organizational status is appropriate to enable better communication with management and ensure independence of department from auditees?
4. What precautions are taken in assigning the auditors to foster auditors' individual independence?
5. Do you plan human resource requirement in advance and prepare job specification to fill the vacant post to ensure employee -job requirement fit?
6. Do you think the existing professional mix (disciplinary composition) of management audit staff is appropriate?
7. Did the department give the management audit staff an opportunity for continuous knowledge and skill development?
8. Does management audit department own approved management audit charter and manual for proper guidance for the staff?
9. Does the department plan for the audit work? If so, what type of plan is prepared and how the department identifies key priority areas to be included in the audit plan?
10. Does the department undertake supervision and quality review for the field works?
11. As management audit director, did you undertake some activities in promoting the benefits of the department so as to create environment conducive to professionalism?
12. Do you think the auditors use adequate criteria to evaluate the performance of the auditee?
13. Is there practice of undertaking exit conference up on completion of management audit work?
14. Does the department require the auditors to communicate engagement result on timely basis?
15. Does the department undertake follow up activities to ascertain whether recommendations have been taken care of or addressed by the audited bodies or auditees?
16. Does the management audit department properly document audit works?

Appendix-II : EAL's INTERNAL AUDIT STRUCTURE :



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Statement of approval

This is to certify that Ato Adare Assefa has completed a research paper entitled" **Assessment of management audit application in Ethiopian public enterprise (*the case of Ethiopian Airline and Ethiopian Telecommunication Corporation)"*** under my guidance. I also approve that this work is appropriate enough to be submitted in partial fulfillment of degree of Masters of Business Administration.

24/11/08

P. Laxmikantham (Dr.)