



**Internal Audit Practices: A Case of Ethiopian
Governmental Higher Educational Institutions for the
Partial Fulfillment of MSC. In Accounting and Finance**

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Certification

This is to certify that Bethlehem Fekadu has carried out this research work on the topic entitled “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSc. in Accounting and Finance.

Ato Assefa Desta

Signature _____

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Acronyms

CAE:	Chief Audit Executive
BPR:	Business Process Reengineering
BA:	Bachelors of Arts
IAF:	Internal Audit Function
IIA:	Institute of Internal Auditor
ISPPIA:	International Standards for Professional Practice of Internal Auditors
CEO:	Chief Executive Officer
IT:	Information Technology

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ABSTRACT

The main purpose of this study was to investigate challenging factors that has influenced the Ethiopian higher governmental institutions to pursue their internal audit practice. The study was continued to four universities, Adama University, Hawasa University, Harama University and Addis Ababa University. Seven internal auditors were used as data source which were selected using convenience sampling techniques. To obtain the required information open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data.

The findings of the study showed that lack of proper management commitment, lack of developmental programs for internal auditors and other organizational factors were critical factors influencing effectiveness of IAF in the respective universities.

To alleviate those problems, it is recommended that management and the audit division of the respective universities has to work jointly to improve the IAF of their respective universities as per requirements of international standards.

Chapter One

1.1 Introduction to Development of Higher Governmental Educational Institutions in Ethiopia

Higher education is crucial for the production of vital human resources critical for socio-economic development of a nation. Furthermore, higher education is a center for knowledge and skills creation, adaptation and dissemination. Higher education is therefore critical for economic progress, political stability and peace, as well as building democratic culture and cohesive societies. Higher education and training in Ethiopia has started over 50 years ago, but still remains highly underdeveloped. The deepening economic decline, the political turmoil and the shifts in priorities caused by war created immense pressure on the Derg regime (1974-1991) to limit or diminish public sector expenditure. Accordingly, the capacity of the government and its willingness to support the provision and development of education, and in particular higher education, in Ethiopia was severely affected. The significant and meaningful role that higher education plays in the improvement of the life of the society, the reduction of poverty and the overall development of

the country were not properly addressed in government strategies and was not given due public attention. However, these situations have changed positively and significantly since 1991. This has been demonstrated by the current government's broad and forward-looking educational vision, clearly defined policies and priorities, realistic education sector development strategies, and sufficient support to attain better and equitable access and overall quality. Since the development and implementation of specific policies and strategies, as well as the implementation of reform agendas, the enrolment figures in the country and the number of universities have more than quadrupled, the number of private higher education institutions has dramatically increased.

1.2 Rationale for the Study

The reality is that internal auditing today still focuses on traditional activities. Internal auditors often must solve day-to-day problem. However, they spend most of their time ensuring that accounting records are properly maintained and reliable; that the assets of the enterprises are adequately safeguarded and properly maintained; and that the organization is in compliance with established policies and procedures.

The majority of internal audit departments do not have a written audit charter. Therefore, the objectives, authority, scope, and responsibilities of internal auditing are not spelled out in most organizations, and no measures exist to ensure that the internal audit department is recognized as acting with the authority and support of senior management.

Internal auditing also is handicapped by a critical shortage of appropriately trained and skilled manpower, inadequate organizational status, and a lack of professional independence. Internal auditors are typically recruited from internal or external accounting departments, and the key qualification is still accountancy-based, which constrains the

role and scope of internal auditors.

The inadequacies in professional education and the lack of a coordinated comprehensive training program are critical obstacles to strengthening internal auditing in Ethiopia.

Thus, in view of realization of full value of effective internal auditing, the proposed study is an attempt of examining the internal audit practices to assure its quality is maintained in the governmental higher educational institutions.

1.3 Objectives of the Study

The broader objective of this research project can be seen as the examination of the internal audit practice in the higher governmental educational institutions in Ethiopia.

Specific objectives include:

- ✓ To examine modern internal audit practices in selected universities.
- ✓ To look into management commitment to add value to the internal audit function.

1.4 Research Methodology

Both primary and secondary data was used to perform the study. The survey questionnaire was used as the main data gathering instrument, and the secondary data has been gathered from books, research articles and appropriate websites that are relevant to this study.

A sample of 4 universities that included Adama, Addis Ababa, Haramaya and Hawasa universities was selected using convenience sampling. Because of their recent establishment and lack of sufficient their internal audit practice, the newly established governmental universities are excluded from this study. Data collected is analyzed qualitatively.

1.5 Significance of the Study

The findings of the study will shed light on the improvement areas in internal audit practice by the higher governmental educational institutions. The findings and recommendation of this study will be valuable on how the respective universities can use the internal audit service most effectively and efficiently.

Besides, this research study will be a basis for other researchers in similar topic.

1.6 Scope and Limitation of the Study

This research study is geographically extended to different parts of the country. Because, internal audit practice consists broad concepts and issues, this research focuses on assessment of the governmental universities modern internal auditing practices. Because of time and financial constraints; it does not extend to private universities and to colleges.

2. Literature Review

2.1 Definition and Scope of Internal audit

In the past, internal auditing was defined as:

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

This statement is more an introduction than a definition. It tells little about what internal auditors are responsible for. We will have to look further for a definition that embodies the broad, unrestricted scope of professional internal auditing (Lawrence B.Sawyer ,1988).

Accordingly, the new IIA definition of internal audit is as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This definition states that scope of internal auditors is assurance and consulting activity.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

However, the work of the auditor is so much bounded up with the detection of fraud in the eyes of the general public that it is necessary that his interest in fraud should be placed in its proper perspective. Although it is obvious that the detection of fraud with the minimum of delay is a matter of great importance, the efficiency of an internal audit department, however, is sometimes judged by the number of defalcation it uncovers (R.S.Waldron,1980).

2.2 TYPES OF AUDITS

A variety of audits are performed in the review of campus programs and resources. These audits include:

Operations Audits:

These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization's mission and objectives.

Financial Audits:

These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of resources.

Compliance Audits:

These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies.

Information Systems (IS) Audits:

These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities.

Internal Control Reviews:

These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting.

2.3. The Development of Internal Audit in Ethiopia

An Internal Auditing function has existed for quite a long time in Ethiopia. Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987. Proclamation No. 13/1987 not only reemphasized the importance of the internal audit function in government departments and public enterprises; it also empowered the Office of Auditor General in three aspects of whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained. On July 1, 1997 the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Minister of Finance to develop and maintain appropriate standards of work .

2.4 International Internal Auditing Standards

The Institute of Internal Auditors promulgates standards and guidelines for internal auditors in a publication titled the International Standards for the Professional Practice of Internal Auditing (ISPPA), Code of Ethics, and The International Professional Practices Framework (IPPF). These standards are designed for all types of internal audits.

The standards are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels. Hence, it is necessary to consider both the statements and their interpretations to understand and apply the Standards correctly. The standards employ terms that have been given specific meanings and are included in the glossary. Hence, it is necessary to consider the specific meanings from the glossary to understand and apply the Standards correctly.

The purpose of the Standards is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

2.5 INTERNAL AUDITORS ROLE IN ORGANIZATIONAL GOVERNANCE

A basic definition of corporate governance is: “The system by which organizations are directed and controlled.” In effect, it is concerned with systems, processes, controls, accountabilities and decision-making at the heart of and at the highest level of an organization. Corporate governance is about the way in which top managers execute their responsibilities and authority and how they account for that authority in relation to those that have entrusted them with assets and resources. In particular it is concerned with the need for openness, integrity and accountability in the decision-making processes of the organization.

Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring. Internal auditing is one of the cornerstones of corporate governance, along with the board of directors, senior management, and external auditing.

Management often calls upon internal auditors to help provide them with assurance that (a) risks are effectively identified and monitored, (b) organizational processes are effectively

controlled and (c) organizational processes are efficient or effective. In other words, internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management's control practices. To strengthen this active role, internal auditors shall report directly to the audit committee, not to senior management there by ensuring Audit committee's preeminent role in monitoring and reporting on the effectiveness of corporate governance. Additionally, in the governance context, the key activity with respect to risk (the probability that an event or action, or inaction, may adversely affect the organization or activity under review) is to monitor it, including all the subsidiary steps of identifying risk, assessing the potential effect of the risk on the organization, determining a strategy to address the risks, and then monitoring the environment for new risks as well as monitoring the existing risk strategy.

To do this effectively, an internal audit activity must have adequate resources, professionally staffed, and follow the internationally recognized framework for internal auditing. Besides, audit committee members must play an active role to ensure that it has enough resources to provide the appropriate level and quality of information and to support the independence of internal auditing and. This independence that can be seen from the angles of :

- ✓ Independence in Mind. The stage of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing individuals to act with integrity and exercise objectivity and professional skepticism. (Bethlehem Zemene,2006)

- ✓ Independence in Appearance. The avoidance of facts and circumstances that a reasonable and informed third party having knowledge of all relevant information , including safeguards as applied would reasonably conceal member of audit team integrity, objectivity and professional skepticism.(Bethlehem Zemene, 2006)

Nevertheless, internal audit independence is increasingly being strengthened by the endorsement of regulators or statute. Internal auditing is thereby virtually mandatory in central and local government, state financed agencies, banks, building societies and some other financial societies.

The support the professional internal auditor receives from his or her professional body is also important. The professional body is a watch dog over many of the factors which contribute to independence and a buttress against threats to that independence (Andrew Chambers, 1992).

However, during the past 50 years, organizations worldwide in the private, public service and voluntary sectors have established internal

auditing functions to improve their monitoring activities. In the early days of its development most internal audit work related to internal accounting control and security over assets. Few internal auditors were involved in operating systems or the achievement of organization objectives and strategic issues at board or governing body level(Kenneth D'Silva, 2007).

2.6 Enterprise Risk Management - Integrated Framework

In 2001, COSO initiated a project to develop a framework that would be readily usable by managements to evaluate and improve their organizations' enterprise risk management. The Internal Control – Integrated Framework continues to serve as the broadly accepted standard for satisfying those reporting requirements; however, in 2004 COSO published Enterprise Risk Management - Integrated Framework. COSO believes this framework expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management.

This enterprise risk management framework is still geared to achieving an entity's objectives categorized into strategic operations, reporting and compliance.

Components of Enterprise Risk Management encompass the previous five components of the Internal Control-Integrated Framework while expanding the COSO model to meet the growing demand for risk management as indicated below:

Internal Environment: The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.

Objective Setting: Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

Event Identification: Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.

Risk Assessment: Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.

Risk Response: Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite.

Control Activities: Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

Information and Communication: Relevant information is identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.

Monitoring: The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

In January 2009, COSO published its Guidance on Monitoring Internal Control Systems (COSO's Monitoring Guidance) to clarify the monitoring component of internal control.

COSO's Monitoring Guidance builds on two fundamental principles originally established in COSO's 2006 Guidance:

- Ongoing and/or separate evaluations enable management to determine whether the other components of internal control continue to function over time, and
- Internal control deficiencies are identified and communicated in a timely manner to those parties responsible for taking corrective action and to management and the board as appropriate.

The monitoring guidance further suggests that these principles are best achieved through monitoring that is based on three broad elements:

- **Establishing a foundation for monitoring**, including (a) a proper tone at the top; (b) an effective organizational structure that assigns monitoring roles to people with appropriate capabilities, objectivity and authority; and (c) a starting point or “baseline” of known effective internal control from which ongoing monitoring and separate evaluations can be implemented;
- **Designing and executing monitoring procedures** focused on persuasive information about the operation of key controls that address meaningful risks to organizational objectives; and
- **Assessing and reporting results**, which includes evaluating the severity of any identified deficiencies and reporting the monitoring results to the appropriate personnel and the board for timely action and follow-up if needed.

2.6.1 The Auditors Role in Managing Risk

Internal auditors play an important role in evaluating the effectiveness of control systems. Within the COSO ERM framework, the role of the auditor does not need to be limited to just auditing controls.

During audit engagements, internal auditors assess if control means are effective and adequate in order to mitigate the risk. Auditors not only provide assurance about these controls, but also consult senior management for better improvement of these controls.

Auditors may provide substantial aid to the management of the enterprise by identifying possible negative events that may negatively affect enterprise objectives, strategies or business models. Many analysis models may be used at this stage, but SWOT (strengths, weak-nesses, opportunities, threats) model is probably the best known among them. Usually negative events of environment come from political, legislative, demographical, technological and other environments. Risk in this case is defined as probability that negative event will occur. Internal auditors may assess risk, whereas risk usually has two dimensions: the likelihood and the impact. The likelihood is the probability that event will occur. The impact is expressed by probable event on operations, financial

statements and other matters. In this case internal auditors may provide adequate information for management decisions using statistical methods of risk assessment.

2.7 The Risk Assessment Process

Risk assessment is a continuous process requiring regular review as internal and external changes influence the company's strategies and objectives.

The risk assessment process includes the identification of auditable units, the identification of relevant risk variables and an assessment of their relative significance.

The following are risk variables.

MATERIALITY

To determine the risk ranking criteria for materiality, the goal is to ensure that a simple and systematic method is developed for assigning the appropriate rank to the risk values. The materiality of an auditable unit reflects the associated inherent risk and may be determined by the following factors:

- Size
- Number of transactions
- Financial exposure
- Regulatory exposure

- Budget information

Values that are determined as insignificant are assigned a value of one (Low Risk); average a value of three (Medium Risk); and significant a value of five (High Risk).

ASSESSMENT AT LAST AUDIT

The significance of the issues noted at the time of the last audit are used to determine the risk ranking. This risk variable represents the results of the findings (i.e., issues) during the last audit performed on an auditable unit. While ranking the audit results, consideration should be given for the severity of issue, repetitive findings and the indication of theft or fraud.

To determine the rank, the following criteria are developed:

- Audits which had two or more “A” issues are assigned a five (High Risk);
- Four or more “B” issues are assigned a three (Medium Risk);
- And the auditable units with “C” issues or no audits are assigned a one (Low Risk).

PERSONNEL & MANAGEMENT

This risk variable reflects the confidence in personnel and management of the auditable unit.

Auditable units that are determined to have experienced management and personnel, low turnover and control awareness are valued a one (Low Risk). Consequently, the opposite situation will be valued at a five (High Risk), and varying degrees between the two will be valued accordingly.

MANAGEMENT DISCRETION

This variable may be used when the Audit Committee and/or management have requested that a certain auditable unit of high concern be reviewed or in their opinion, qualifies for a higher risk score. This may also be used by the Director of Internal Audit based on his knowledge of the auditable units.

ORGANIZATIONAL EVENTS

This can be defined as any event, which will significantly impact the perceived level of risk to the auditable unit. The assessment can be accomplished through discussion or other forms of communication with management. And includes:

- Information Systems (e.g., new implementations or changes to current systems, etc.);
- Organizational/Operational/Technological developments;

- New legislation and regulations;
- Natural catastrophes;
- Financial and Economic conditions;
- Rapid growth;

Auditable Units with no changes equals a value of one; moderate changes, a value of three, and significant changes, a value of five

In general, risk based auditing involves the following stages.

1. **Policy formulation:** organizations are required to bring out clear-cut policy on adoption of risk based approach towards internal audit. Such a policy, approved by the Board of Directors, should contain the methodology for risk and functions which should be subjected to risk based assessment

2. **Conduct of Risk Based Audit:** Once the policy is in place, organization should draw up a roadmap for implementation of conduct of risk based audit. The roadmap should outline the arrangements for developing the risk profile and the sources thereof, classification of the branch / function into low, medium and high risk and the periodicity of audit and the quantum of transaction testing. The risk profile prepared earlier should be subject to periodical updating incorporating the findings of audit.

3. **Audit report - preparation and follow-up:** Risk based internal audit findings are to be recorded in a specific format to enable the responsible persons to follow-up the findings in order to correct any deviations.

4. **Organizational aspects:** For implementation of the road map for risk based audit, there should be a proper organizational set up, which may consist of a Task Force of senior officers. The Task Force should identify the transitional and change management issues. The availability of skilled auditors / inspectors has to be assessed on an ongoing basis.

2.8 Internal Audit Reporting Structure

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

Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the C.A.E on the results of the internal audit activities or other matters that the C.A.E determines are necessary, private meeting with the C.A.E without management present, approve all decisions regarding the appointment or the removal of the C.A.E, approve the annual compensation and salary adjustment of the C.A.E, and make appropriate inquiries of the management and the C.A.E to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility.

On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-

to-day operation of the internal audit function it typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures (Irvin N. Gleim, 2002).

2.9 Business Process Reengineering

The classic definition of Business Process Reengineering (BPR) is given in Michael Hammer's and John Champy's pioneering book, "Reengineering the Corporation-A Manifesto for Business Revolution," published by Harper Collins, 1993. They define BPR as, "The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed." From this definition it is clear that BPR is an ongoing, iterative process itself requiring strong commitment and vision from senior management. Improving business processes is paramount for businesses to stay competitive in today's marketplace. Many companies began business process improvement with a continuous improvement model.

Internal auditors play a critical role in the reengineering of core business processes due to their knowledge of systems and controls, even though they have to reengineer their skills and audit approach because much of what internal auditors were accustomed to find in the processes is affected or disappears due to the radical changes of BPR.

Besides, as reengineering is inherently highly situational and creative, an audit of a BPR implementation cannot be one of compliance to a methodology, but rather it is the assessment of risk management and how improvements in outcomes, which are important to customers and stakeholders, are achieved. Here, internal auditors as member of BPR team will play major role in risk assessment and management for effective implementation of BPR.

Chapter Three

Data Presentation and Analysis

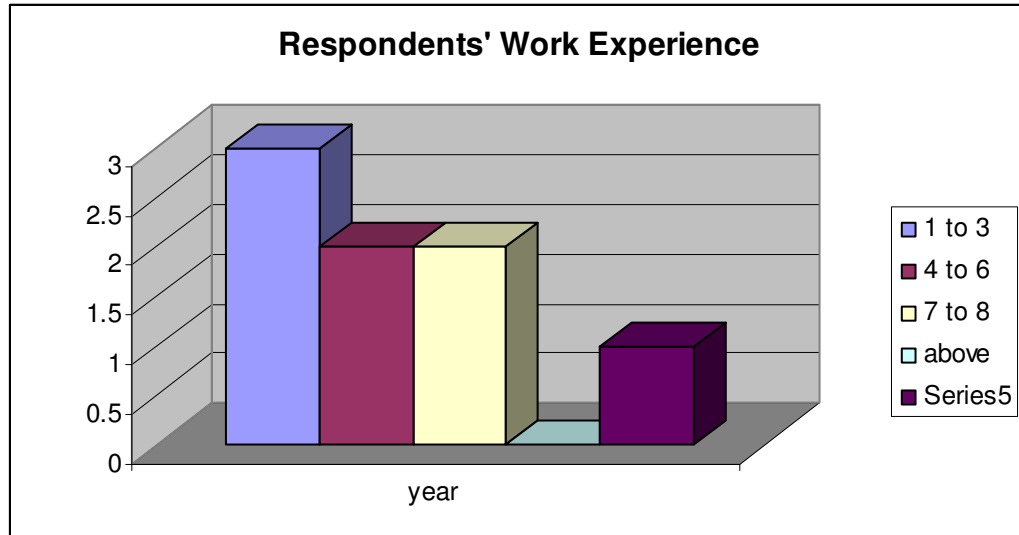
3.1. Data Gathering

Data has been collected using the attached questionnaire (Annex1) to meet the objective of this research study. The respondents are internal auditors (including performance audit team members) and audit division head with an educational background of accounting with BA as well as management and have one to eight years of work experience as internal auditor. The following is response rate.

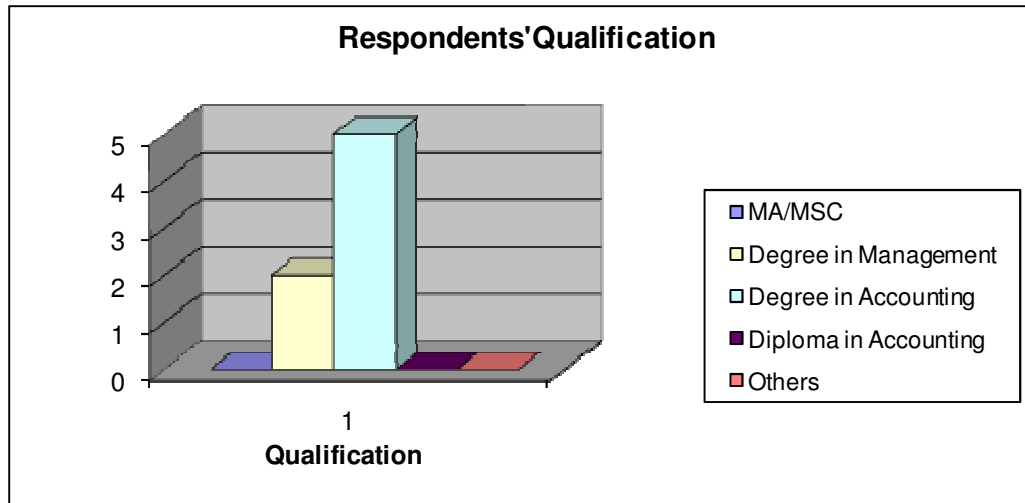
	Selected Universities	Sample Population	Response
1	Addis Ababa University	3	3
2	Adama University	2	1
3	Hawassa University	2	2
4	Haramaya University	1	1
	Total	8	7
	Total Response Rate		87.5%

Table 1

The following is also summarization of respondents' work experience and educational qualification.



GRAPH 1



GRAPH 2

3.2. Empirical Results and Discussion

3.2.1. Introduction

Internal auditing is one of the cornerstones of corporate governance, along with the board of directors, senior management, and external auditing.

Internal audit has played an active role in implementing effective governance and controls through assessing the effectiveness of management's control practices.

To do this effectively, an internal audit activity must have adequate resources, professionally staffed, and follow the internationally recognized framework for internal auditing. Additionally, as reviewed in the literature part in the governance context, assessing the risks inherent in new strategies and developing proper controls to mitigate risks associated with a strategy are essential management activities.

Controls exist to address risks. In the context of governance, the key is to ensure that controls are in place to address key organizational risks. And, internal auditors contribute to an organization's understanding of risk and control.

Although, internal audit is expected to meet the above mentioned objectives, the case is very different in Ethiopian governmental universities where their internal audit practices is facing challenges basically from management side in terms of poor commitment to effectiveness of IAF in their organization including inability to utilize auditors' recommendations, absence of appropriate resource commitment, absence of audit committee, audit charter, absence of development and training program for not only the chief audit executive but also the assistant auditors and poor awareness of some other functional units regarding audit practices that approach the internal auditors only as fraud finders which in turn impacts on the department's relationship with other functional units.

3.2.2. Availability of Audit Charter

The attribute standard No. 1000 as per the IIA states that 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. Besides, the implementation standard 1000.A1 states that the nature of assurance services provided to the organization should be defined in the audit charter. Again, implementation standard 1000.c1 states that the nature of consulting services should be defined in the audit charter.

In addition to the availability of the internal audit charter that clearly states the purpose, authority and responsibility of the IAF in each of the university, the internal audit charter should be effectively communicated to the respective internal auditors.

Besides, the establishment of effective internal audit function is the responsibility of the top management of respective universities. And, one fulfillment of their responsibility is to make real the existence of clear and communicated audit charter in their respective universities that will increase the auditors' work effectiveness.

However, all respondents assured the absence of audit charter in each of their respective university and also existence of lack of initiation from the management side to make it real regardless of their repetitive effort for the establishment of internal audit charter in each of their respective university. Rather, all respondents stated that they are currently using the audit manual of the government.

3.2.3. Internal Audit Reporting Responsibility

As reviewed in the literature part, the chief audit executive (CAE) should functionally report to the audit committee, board of directors, or other appropriate governing authority, and administratively to the chief executive officer (CEO) of the organizations. And, functional reporting line for the internal audit function is the ultimate source of independence and authority. Besides, ISPPIA No.1110 which is attribute standard on organizational independence states that the chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. This is supported by the implementation standard No.1110.A1 that the internal audit activity should be free from interference in determining the scope of internal auditing, performing work and communicating results.

However all respondents stated that their CAE functionally reports to the president office that has forced them to lose their independence.

3.2.4. Composition and Quality of Internal Audit Staff

According to ISPPA No.1210, internal auditors should possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. The internal audit department should have qualified staff to meet the very objective of its existence. This is complemented by the implementation standard No. 1210.A2 that the internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. In this regard all respondents agreed that their qualification is adequate for internal audit activities.

Besides, the audit departments should be composed of different fields in a team approach which turn depends on the type of the organization. For example, a manufacturing organization can increase the number of its audit in terms of more members from engineering and operation management than who is from accounting basis. However, the Ethiopian governmental universities are only service providers. Hence, their audit

team at least should have members from IT field that helps the remaining audit members regarding the technical and related concepts of the computer system.

However, only Addis Ababa University has begun the road where its internal audit department is composed in a team approach that includes performance audit team, financial audit team and property audit team.

3.2.5. Internal Audit Plan and Quality Assessment

The internal audit program has to encompass proper risk based planning and also quality assurance. According to ISPPIA No.2010, the chief audit executive should establish risk-based plans which are supported by the implementation standard No. 2010.A1 that requires the internal audit activity's plan to be based on a risk assessment, undertaken at least annually. And, as indicated in literature review part, the risk assessment process is nothing but identification of auditable units, identification of relevant risk variables, and an assessment of their relative significance.

14.3% of the respondents strongly agreed that the plan for their internal audit activity is based on their respective organizations risk profile. 57.1% of the respondents agreed for undertake of risk based audit plan. Another 14.3% of the respondents disagreed for existence of risk based audit plan in their IAF. The remaining 14.3% strongly disagreed for implementing the risk based audit plan in their audit department.

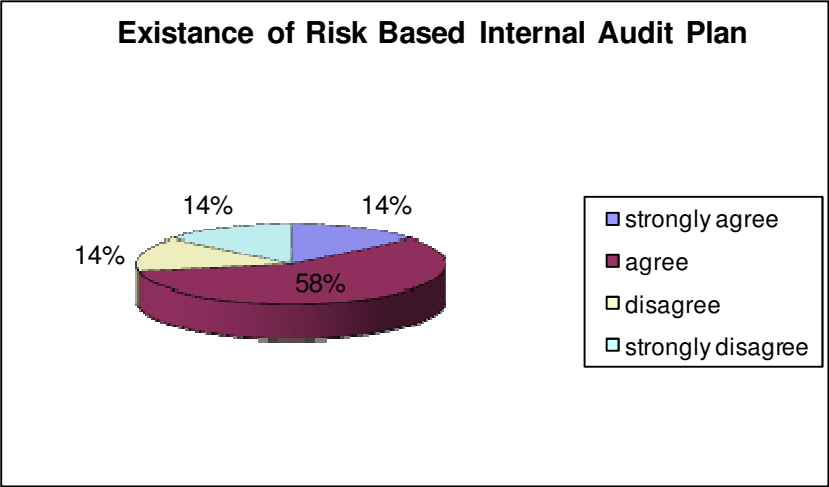


Chart 1

Regarding quality assurance program, ISPPIA No.1300 underlines the responsibility of CAE for quality assurance and improvement program to assure the conformity of internal audit activity with the international standards and code of ethics. ISPPIA No.1310 requires for establishment of assessment process for the quality program where ISPPIA No.1311 and ISPPIA No.1312 categorizes this assessment process into internal or self assessment and external assessment at least once every five years by independent reviewer which is an outsider ,respectively. Finally, ISPPIA No.1320 even sets the responsibility of CAE to communicate the results of external assessment to the board.

Nevertheless, all respondents have stated that there is no quality assurance program in their department, no external quality assessment every five years and hence, no recent quality assessment results communicated by CAE.

Regarding the completion of what is planned, 14% of the respondents strongly agreed that they have very satisfactorily completed this year plan. 43% of the respondents agreed that they have satisfactorily completed this year internal audit plan and the other 43% also replied that this year internal audit activity accomplishment as per the plan is below satisfactory.

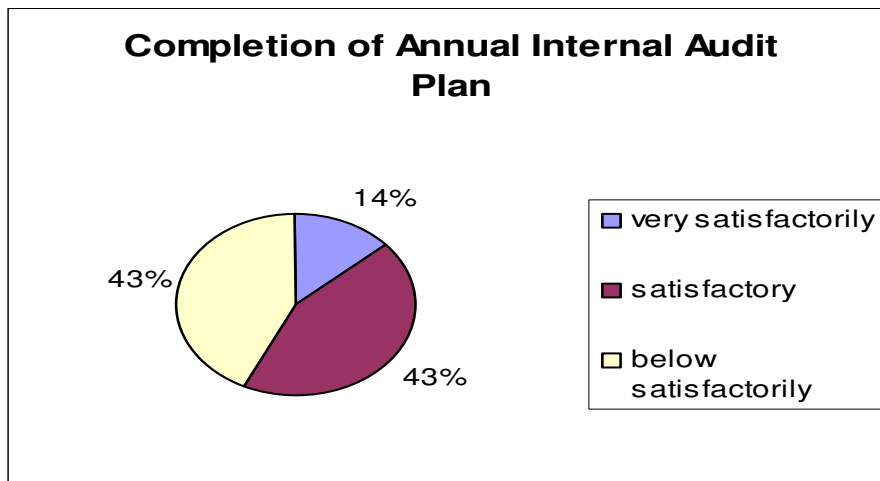


Chart 2

3.2.6. Internal Audit Role in Risk Management and Corporate Governance

As indicated in the literature part, the 2004 COSO ERM Integrated Framework states the need for internal auditors to assess adequacy of control to mitigate risk. Additionally, ISPPIA No.2110 requires IAF to extend to enterprise wide risk assessment to result in effective risk management and control systems.

However, all respondents stated that they have not involved in evaluating the effectiveness of risk processes including IT audit and associated risks. Besides, they confirmed that their respective universities are not as such developed in utilizing IT.

As reviewed in chapter two, internal auditors' role is immense in supporting the corporate governance responsibility of management to the key activities of risk identification and monitoring as well as the effectiveness and efficiency of the whole organizational processes and associated controls, including IT controls.

29% of the respondents states that they are moderately involved in improving the corporate governance of their respective universities in

areas of compliance to governmental rules and regulations, especially through management performance audit team and 71% of the respondents stated that their contribution to effectiveness of the corporate governance of their organizations is very low.

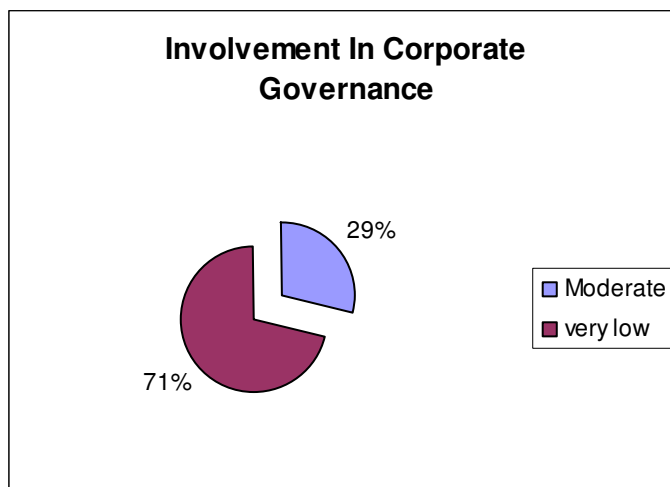


Chart: 3

3.2.7. Resource commitment and Development Programs for Internal Auditors

Theoretically as reviewed in literature part, the board or audit committee to whom the Chief Audit Executive functionally report makes appropriate inquiries of the management and the C.A.E to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility. Besides, as per ISPPIA No.2030, CAE takes responsibility for appropriate, sufficient and effectively deployed resources.

Accordingly, 14% of the respondents assured the existence of sufficient resource to undertake their reasonable assurance and consulting activities. However, the remaining 86% believed that their department is not sufficiently resourced that affects the effectiveness of their IAF.

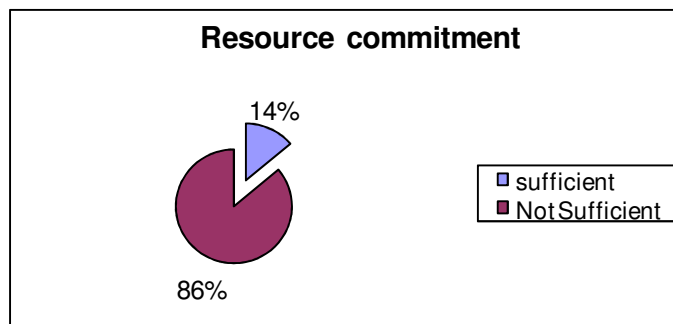


Chart 4

Regarding the internal auditors' development programs, ISPPIA No.1230 and IIA's Code of Ethics principle No.4 requires for development of the proficiency of internal auditors through continuing professional development to enhance their competency.

Accordingly 14% of the respondents assured progress of their audit division in terms of number of qualified staff to undertake their reasonable assurance and consulting activities. However, the other 86% believed that their department is not sufficiently progressed in terms of number of qualified staff that affects the quality of the audit service from their department, collectively.

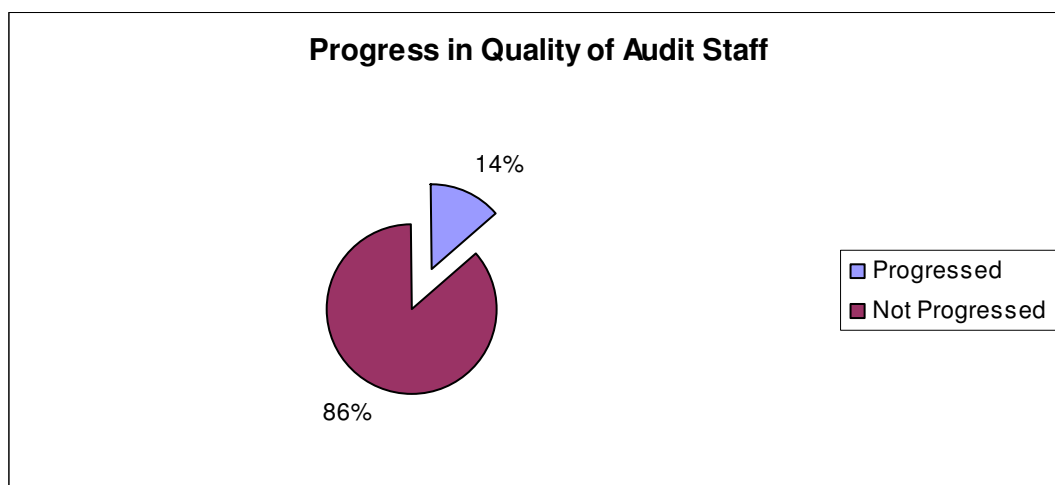


Chart 5

3.2.8. Role of Internal auditors in Business Process Reengineering (BPR)

Internal auditors play a critical role in the reengineering of core business processes due to their knowledge of systems and controls. Besides, their function will increase in their risk assessment as BPR involves much more risks to be identified and managed, especially related to its dependency in information technology.

All respondents strongly disagreed that BPR is not threat to their job but underlies that their contribution still is immense in terms of checking the proper functioning of the newly implemented system. Besides, all respondents agreed that the implementation of BPR program in their universities will bring dramatically improvements in their service provision to their users, mainly the management of their respective universities.

Additionally, 14% of the respondents stated that their role on BPR resets on assessing, evaluating and monitoring the proper implementation of BPR program in their respective universities. However, the other 86% of the respondents have not any clear picture on their role regarding the

implementation of BPR in their respective universities. The following chart depicts the same.

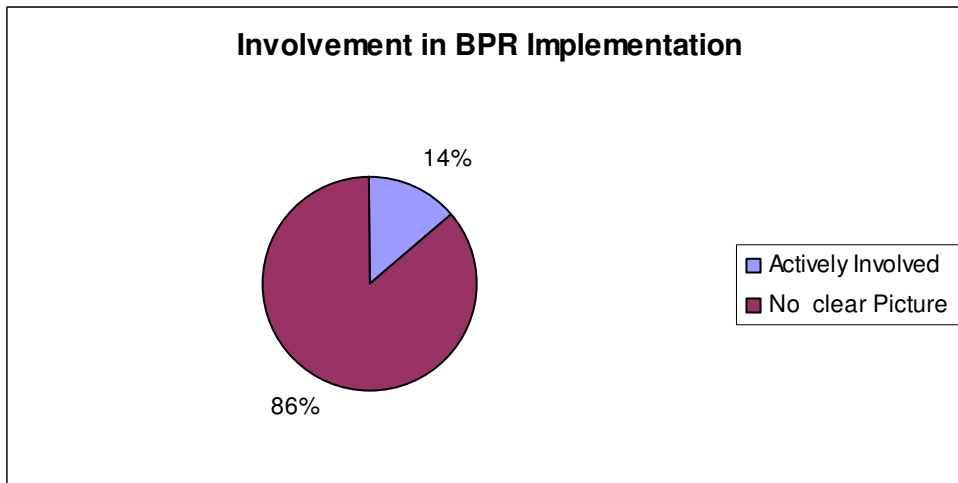


Chart 6

4.1. Conclusions

The attribute standard No. 1000 as per the IIA states that 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 including stating of nature of assurance service and consulting service as per implementation standard 1000.A1 and 1000.c1.

The Charter is the bill of rights and obligations of the IAF .It covers those distinctive rights and obligations which may not otherwise be understood and accepted as they are special by internal auditors.

Functional reporting line for the internal audit function is the ultimate source of independence and authority to satisfy the requirement of ISPPIA No.1110 for CAE to report to a level within the organization that allows the internal audit activity to fulfill its responsibilities and freedom from interference in determining the scope of internal auditing, performing work and communicating results as per the implementation standard No.1110.A1. Unfortunately, none of the sample universities have established the audit committee. Hence, the prerequisite, to some extent, to satisfy these international standards is the establishment of

the audit committee in each of the universities to whom the RAE functionally reports.

Besides, as per ISPPIA No.2030, CAE takes responsibility for appropriate and sufficient deployed resources. However, the 86% believed that their department is not sufficiently resourced that affects the effectiveness of their IAF. Hence, more resource commitment to IAF is required.

Additionally, according to ISPPIA No.1210, internal auditors should possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Besides, ISPPIA No.1230 and IIA's Code of Ethics rule No. 4 on competency requires for development of the proficiency of internal auditors through continuing professional development to enhance their competency. Nevertheless, only 14% of the respondents assured both that there is enough resource commitment to achieve the IAF and also there is progress in number of qualified internal audit staff. This reflects the need to top management to give fair opportunity to development programs to both the academicians and other officers, in this case to internal auditors. In case of training programs, they should include both the CAE and remaining internal auditors.

According to ISPPIA No.2010, the chief audit executive of respective universities should establish risk-based internal audit plans.

In this regard, only 14.3% of the respondents strongly agreed that the plan for their internal audit activity is based on their respective organizations risk profile.

Besides, planning without implementation, follow up and feedback loop has no worth value. 43% of the respondents agreed that they have satisfactorily completed this year's internal audit plan. And, much is expected from them to add value to their audit plan by effective accomplishment of what is planned through appropriate and sufficient resource deployment.

Regarding quality assurance program, none of the respective universities' audit department has quality assurance program including the internal and external quality assessment processes. However ISPPIA No.1300 underlines the responsibility of CAE for quality assurance and improvement program standards.

Additionally, ISPPIA No.2110 and 2004 COSO ERM Integrated Framework requires IAF to extend to enterprise wide risk assessment to result in effective risk management and control systems. However, all respondents stated that they have not involved in evaluating the effectiveness of risk processes including IT related risks.

ISPPIA No.2130 requires internal audit active role in corporate governance through supporting management in evaluating and

monitoring all processes. Nevertheless, 71% of the respondents stated that their contribution to effectiveness of the corporate governance of their organizations is very low.

What we can conclude in this case is that active role of IAF both in enterprise wide risk assessment and corporate governance is a commensurate to achieve continuous improvement in risk management and corporate governance in respective universities.

Finally, internal auditors play a critical role in the reengineering of core business processes due to their knowledge of systems and controls. Besides, as reengineering is inherently highly situational and creative, internal auditors as member of BPR team will play major role in risk assessment and management for effective implementation of BPR.

86% of the respondents are not yet have clear picture on their role during the implementation of BPR in their respective universities. This questions on how the training program on BPR program is being undertaken in respective universities. Here, one of the very significant change agents is not only the CAE but also other internal auditors. Thus, any training program on introduction of new to the work environment, in this case, BPR, should firstly identify the significant change agents, in this case internal auditors at all levels and give them adequate training programs.

4.2. Recommendations

As per ISPPIA framework, internal audit charter that clearly shows the purpose, authority, and responsibility of the internal audit activity consistent with the standards, and approved by the board, and that defines of nature of assurance service and consulting service should be available and effectively communicated in each of the respective universities. Thus, the management of all the respective universities should take the initiation to coordinate the collaborative efforts to have their individual internal audit charter at hand as per the international standards requirement to add value to their IAF.

Competency is required for development of the proficiency of internal auditors through continuing professional development to enhance their competency. Hence, training programs that include all audit members in the universities must be developed to increase the role of internal auditors in implementation of BPR program in respective universities. Here, the awareness has to be stretched to add knowledge on internal audit role in implementation of BPR program in the universities.

Here, not only the qualification, but also the composition must be considered where the internal auditors should be composed of different

fields than merely of accounting basis. This is especially very significant in audit of the information technology where people from IT field will contribute a lot regarding technical and other conceptual aspects of the computer system.

As seen in the conclusion part, it is the responsibility of CAE for adequate resource. Hence, CAE should take the ignition for appropriate and sufficient deployment of resources to foster the efficiency of the practice of IAF.

In the case of the reporting relationship, the CAE shall functionally report to audit committee which is expected to be composed of the board of directors. This will ensure independence of the internal audit function and also contribution to corporate governance. Hence, the universities must be able to establish the audit committee.

Besides, the IAF of respective universities can not be judged as being undertaken in accordance to ISPPIA with absence of risk based audit. Hence, series of actions should be undertaken to the road of risk based audit in all respective universities.

Regarding quality assurance program, none of the respective universities' audit department has quality assurance programs. Thus, CAE should be able to develop quality assurance programs.

Active role of IAF both in enterprise wide risk assessment and corporate governance is a commensurate to achieve continuous improvement in risk management and corporate governance in respective universities. This in turn requires the internal audit position in respective universities to be sufficiently high level.

Besides, different internal audit awareness program shall be conducted to increase employee awareness as internal auditors should not be judged by the same criteria applied to police force as fault or crime finders and also improve their relationship with the internal audit department.

AS the internal auditors are familiar with the systems and controls, their contribution to BPR's implementation is unquestionable Hence, the management of the universities should develop training programs to all audit members of the universities. Now, who participated in the BPR training program in the universities are chief internal auditors.

All of the respondents reply that they are facing tremendous challenge because of management's poor attention to IAF in terms of implementing the opinion of the internal auditors and resource commitment. Hence, the management of respective universities is professionally obliged to be committed to effectiveness of internal audit practice.

To conclude, it is important to recognize that internal audit is not a substitute for effective controls. The executive management should establish an internal audit function to contribute to internal control, corporate governance and risk management of the respective universities by examining, evaluating and reporting to management on its effectiveness. Internal audit activity achieves its objective if only management responds to its findings and opinions.

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Appendix 1

Addis Ababa University School of Post Graduate Students Department of Accounting and Finance

This is questionnaire designed to meet the objective of research project titled “Internal Audit Practice of Higher Governmental Educational Institutions” for partial fulfillment of MSC in Accounting and Finance from Addis Ababa University.

Dear respondent, I would like to assure you that your response will only be used for the intended purpose and remains confidential.

Thank you for your Cooperation !

Part one: General information

- i. Name of your organization
- ii. Your position in the organization
- iii. Educational background
 - MSC and above in accounting
 - BA in accounting
 - Diploma in accounting
 - Below diploma in accounting
 - Certified like CIA (Certified internal auditor), ACCA,
other
 - Other than accounting qualification: please
specify
- iv. Work experience as an internal auditor
year(s)

Part Two

Examining the internal audit activity performance

1) Do you have audit charter?

Yes

Use government manual No

2) Do you agree that your internal audit activity comply with The IIA's Standards?

Strongly Agree

Agree

Disagree

Strongly disagree

3) Is internal auditing's position in your organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence?

Strongly Agree

Agree

Disagree

Strongly disagree

4) Is the internal audit plan based on your organization's risk profile?

Strongly Agree

Agree

Disagree

Strongly disagree

5) How well is the internal audit activity completing its plan this year?

Very satisfactory

Satisfactory

Below satisfactory

Poor

6) Does internal auditing have a quality assurance program?

Yes. No.

7) Does it have a plan to undergo an external quality assessment every five years as required by the Standards?

Yes. No.

8) What are the results of the most recent quality assessment?

9) Is internal auditing sufficiently resourced to provide objective assurance on risk and control?

10) To what extent are internal auditors involved in auditing the effectiveness of the governance structure of the organization?

11) Do you think that the organization's audit department or divisions has progressed in terms of number of qualified staff?

12) How have budgetary control and resources expended on internal audit changed with the increased governance requirements of different regulatory organizations?

13) What role should the internal audit function play in risk management?

14) What is the internal auditor's role in evaluating the effectiveness of risk processes and controls associated with information technology?

15) Is the existence of an effective internal audit function associated with reduced incidence of control failures? Specify, if any.

16) What kinds of safeguards are built into the internal audit practices to ensure that internal auditing will meet its external governance responsibilities?

17) Does your organization has an audit committee?

Yes. No.

18) To whom does the internal audit department report in your organization?

Board / Audit committee
General Manger

President
Finance Department Head
Other, please specify

19) Does the increased reporting responsibility of the internal audit function to the audit committee decrease the value of the IAF as a management tool?

Strongly Agree
Agree
Disagree
Strongly disagree

20) Are there inherent conflicts in reporting responsibilities when internal auditors report to both the audit committee and to various levels of management?

Strongly Agree
Agree
Disagree
Strongly disagree

21) Has the nature of the interaction of the internal audit function with audit committees changed?

Yes. No.
If yes, how has it changed?

22) When was the last time I internal audit charter reviewed?

23) Does audit committee play an active role in supporting the independence of internal auditing and ensuring it has enough resources?

Very satisfactory
Satisfactory
Below satisfactory
Poor

24) Is there an association between the quality of the internal audit function and the effectiveness of the audit committee?

Strongly Agree

Agree

Disagree

Strongly disagree

25) How do you value the BPR implementation to your university as a whole?

Very important

Important

Not significant

Unnecessary

26) Do you feel that BPR implementation in your university improves your job performance?

Yes. No.

If yes, how will it be improved?

27) BPR is a threat to internal auditors in terms of loss of job or else reduces their importance. Do you agree?

Strongly Agree

Agree

Disagree

Strongly disagree

28) If you do not agree in question 26 above, what is your role to the BPR implementation in your university?

29) Do you feel that the management of your university has a commitment to add value to the internal audit function?

Very satisfactory

Satisfactory

Below satisfactory

Poor

30) What are the challenges you face from management side in your internal audit activities?

Appendix II

INTERNAL AUDIT CHARTER

Standards for the Professional Practice of Internal

Auditing

THE INSTITUTE OF INTERNAL AUDITORS

The standards consist of Attribute Standards (the 1000 Series), Performance standards (the 2000 Series), and Implementation standards (nnnn.Xn). The Attribute standards address the characteristics of organizations and individuals performing internal audit internal audit activities. The Performance standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards apply to internal audit services in general. The Implementation standards apply the Attribute and Performance standards to specific types of engagements (for example, a compliance audit, a fraud investigation, or a control self-assessment project). There is one set of Attribute and Performance Standards, however there may be multiple sets of Implementation standards: a set for each of the major types of internal audit activity. Initially,

The Implementation standards are being established for assurance activities (noted by an "A" following the Standard number, e.g., 1130.A1) and consulting activities (noted by a "C" following the Standard number, e.g., nnnn.C1). The

Standards are part of the Professional Practices Framework. This framework was proposed. The Standards employ terms that have been given specific meanings that are included in the Glossary.

ATTRIBUTE STANDARDS

1000 – Purpose, Authority, and Responsibility

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.

1000. A1 - The nature of assurance services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter.

1000. C1 - The nature of consulting services should be defined in the audit charter.

1100 – Independence and Objectivity

The internal audit activity should be independent, and audit auditors should be objective in performing their work.

1110 – Organizational Independence

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

1110. A1 - The internal audit activity should be free from interference in determining the scope of internal audit auditing, performing work, and communicating results.

1120 – Individual Objectivity

Internal audit auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 – Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130. A1 – internal audit auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

1130. A2 – Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity.

1130. C1 - internal auditors may provide consulting service relating to operations for which they had previous responsibilities.

1130. C2 - If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements should be performed with proficiency and due professional care.

1210 – Proficiency

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.

1210. A1 - The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210. A2 – The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210. C1 - The chief audit executive should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care

Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220. A1 - The internal auditor should exercise due professional care by considering the: Extent of work needed to achieve the engagement's objectives. Relative complexity, materiality, or significance of matters to which assurance procedures are applied. Adequacy and effectiveness of risk management, control, and governance processes. Probability of significant errors, irregularities, or non-compliance. Cost of assurance in relation to potential benefits.

1220. A2 - The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220. C1 - The internal auditor should exercise due professional care during a consulting engagement by considering the: Needs and expectations of clients, including the nature, timing, and communication of engagement results. Relative complexity and extent of work needed to achieve the engagement's objectives.

Cost of the consulting engagement in relation to potential benefits.

1230 - Continuing Professional Development

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

1300 – Quality Assurance and Improvement Program

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. 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.

1310 – Quality Program Assessments

The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

1311 – Internal Assessments

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 auditing practices and the standards.

1312 – External Assessments

External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

1320 – Reporting on the Quality Program

The chief audit executive should communicate the results of external assessments to the board.

1330 – Use of "Conducted in Accordance with the standards "

Internal auditors are encouraged to report that their activities are "conducted in accordance with the Standards for the Professional Practice of internal Auditing." However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the Standards.

1340 – Disclosure of Non-compliance

Although the internal audit activity should achieve full compliance with the Standards and internal auditors with the Code of Ethics, there may be instances in which full compliance is not achieved. When non-compliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board.

PERFORMANCE STANDARDS

2000 – Managing the internal audit Activity

The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

2010 – Planning

The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010. n A1 - The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

2010. C1 - The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Those engagements that have been accepted should be included in the plan.

2020 – Communication and Approval

The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive should ensure that audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

2040 – Policies and Procedures

The chief audit executive should establish policies and procedures to guide the audit activity.

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to the Board and Senior Management

The chief audit executive should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

2100 – Nature of Work

The internal audit activity evaluates and contributes to the improvement of risk management, control and governance systems.

2110 – Risk Management

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

2110. A1 - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.

2110. A2 - The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the Reliability and integrity of financial and operational information. Effectiveness and efficiency of operations. Safeguarding of assets. Compliance with laws, regulations, an contracts.

2110. C1 - During consulting engagements, internal audit auditors should address risk consistent with the engagement's objectives and should be alert to the existence of other significant risks.

2110. C2 - Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2120 - Control

The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2120. A1 - Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls

encompassing the organization's governance, operations, and information systems. This should include: Reliability and integrity of financial and operational information.

Effectiveness and efficiency of operations. Safeguarding of assets. Compliance with laws, regulations, and contracts.

2120. A2 - internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

2120. A3 - Internal auditors 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.

2120. A4 - 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.

2120. C1 - During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and should be alert to the existence of any significant control weaknesses.

2120. C2 – internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2130 – Governance

The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.

2130. A1 - internal auditors should review operations and programs to ensure consistency with organizational values.

2130. C1 – Consulting engagement objectives should be consistent with the overall values and goals of the organization.

2200 – Engagement Planning

Internal auditors should develop and record a plan for each engagement.

2201 - Planning Considerations

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.

2201. C1 - internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

2210 – Engagement Objectives

The engagement's objectives should address the risks, controls, and governance processes associated with the activities under review.

2210. A1 - When planning the engagement, the internal auditor should identify and assess risks relevant to the activity under review. The engagement objectives should reflect the results of the risk assessment.

2210. A2 - The internal auditor should consider the probability of significant errors, irregularities, non-compliance, and other exposures when developing the engagement objectives.

2210. C1 – Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

2220 – Engagement Scope

The established scope should be sufficient to satisfy the objectives of the engagement.

2220. A 1 - The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220. C 1 - In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

2230 - Engagement Resource Allocation

Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 - Engagement Work Program

Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240. A1 - Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to the commencement of work, and any adjustments approved promptly.

2240. C1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

2320 – Analysis and Evaluation

Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Recording Information

Internal auditors should record relevant information to support the conclusions and engagement results.

2330. A1 - The chief audit executive should control access to engagement records. The chief audit executive should obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330. A2 - 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.

2330. C1 - The chief audit executive 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.

2340 – Engagement Supervision

Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400 – Communicating Results

Internal auditors should communicate the engagement results promptly.

2410 – Criteria for Communicating

Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410. A1 - The final communication of results should, where appropriate, contain the internal auditor's overall opinion.

2410. A2 - Engagement communications should acknowledge satisfactory performance.

2410. C1 - Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications should be accurate, objective, clear, concise, constructive, complete, and timely.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive should communicate corrected information to all individuals who received the original communication.

2430 – Engagement Disclosure of Non-compliance with

The Standards

When non-compliance with the Standards impacts a specific engagement, communication of the results should disclose the: Standard(s) with which full compliance was not achieved, Reason(s) for non-compliance, and impact of non-compliance on the engagement.

2440 – Disseminating Results

The chief audit executive should disseminate results to the appropriate individuals.

2440. A1 - The chief audit executive is responsible for communicating the final results to individuals who can ensure that the results are given due consideration.

2440. C1 - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440. C2 – During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

2500 – Monitoring Progress

The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

2500. A1 - 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.

2500. C1 – The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Management’s Acceptance of Risks

When the chief audit executive believes that senior management has accepted a level of residual risk that is unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

Appendix III

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CODE OF ETHICS

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are Discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort their reporting of activities under review.

3. Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Bibliography

<http://www.theia.org>

Declaration

I, Bethlehem Fekadu declare that, this paper prepared for the partial fulfillment of the requirements for MSC. Degree in Accounting and Finance entitled “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Bethlehem Fekadu

Signature _____

Date _____