



CHALLENGES AND PROSPECTS OF INTERNAL AUDIT IN
PERFORMING AUDIT FUNCTION IN SELECTED
GOVERNMENT HIGER EDUCATION INSTITUTIONS IN
ETHIOPIA

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**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MASTERS OF SCIENCE (MSC) IN ACCOUNTING AND AUDITING**

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HIGER EDUCATION INSTITUTIONS IN ETHIOPIA

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DECLARATION

I, Abate Kebede, declare that this study entitled as “INTERNAL AUDIT CHALLENGES AND PROSPECTS IN GOVERNMENT HIGER EDUCATION INSTITUTIONS”, is my own work. I have carried out the research work independently with the guidance and support of the research advisor. This study had not been submitted to any degree/diploma in this or any other institution. It is done in partial fulfillment of Msc Degree in Accounting and Auditing

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CERTIFICATE

This is to certify that Abate Kebede has carried out this research work on the topic entitled “INTERNAL AUDIT CHALLENGES AND PROSPECTS IN GOVERNMENT HIGER EDUCATION INSTITUTIONS IN ETHIOPIA”. This work is original in nature and is suitable for submission to the award of MSc, In Accounting and Auditing.

Name of advisor: _____ Signature: _____

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Abstract

As per IIA statement, internal audit helps organizations to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. With regard to this, MoF has taken different measures to strengthen and develop the internal audit system in the institutions according to the IIA standards. But the internal audits in government higher education institutions were ineffective to discharge their role as per the definition of internal auditing.

The purpose of this study is to assessing challenges and prospects of internal audit activity in selected 8 universities through questionnaire, focus group discussion, reviewed annual plans, quarterly reports of internal audit and also revise ID assurance and improvement program reports.

At the end we discussed with (MoF) Inspection Directorate Director, experts and human resource administration team.

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List of acronyms and abbreviation:

ACCA:	Association of chartered certified accountant
APBG:	Auditing Practices Board Auditing Guidelines
ASB:	Auditing Standards Board
CAE:	Chief Audit Executive
CIA:	Certified Internal Auditor
CMA:	Certified Management Accountant
CPA:	Certified Public Accountant
CPA:	Certified Public Accountants
IA:	Internal Auditors
ID	Inspection Directorate
IIA:	Institute of Internal Auditors
IPPF:	International Professional Practices Framework
ISA:	International standard on Auditing
MoE:	Ministry of Education
MoF:	Ministry of Finance
OFAG:	Office of the Audit General

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The roots of auditing in general are intuitively described by Mautz & Sharaf, (1961) as follows: “The origin of auditing goes back to times scarcely less remote than that of accounting... Whenever the advance of civilization brought about the necessity of one man being in trusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.” Sridhar (2003) also describe IA is one of recent profession while records show that even the earliest of civilizations had some forms of internal auditing as far back as 5,000 years ago. As far back as 4000 B.C., historians believe, formal record-keeping systems were first instituted by organized businesses and governments in the Near East to allay their concerns about correctly accounting for receipts and disbursements and collecting taxes. Similar developments occurred with respect to the Zhao dynasty in China (1122-256 B.C.). The need for and indications of audits can be traced back to public finance systems in Babylonia, Greece, the Roman Empire, the City States of Italy, etc., all of which developed a detailed system of checks and counterchecks. Specifically, these governments were worried about incompetent officials prone to making bookkeeping errors and inaccuracies as well as corrupt officials who were motivated to perpetrate fraud whenever the opportunity arose.

Modern internal auditing profession has been developed in New York in 1941, and become management oriented profession and established itself as a distinctive discipline with a far greater focuses rather than mainly focusing on the verifying of the existence of financial matters Sawyer (2003). The internal auditing activity has been clearly defined in the definition of Institute of Internal Auditors (IIA) Practice Framework. as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It also 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.”

With this definition, the role of internal auditors is upgrade from a traditional audit approach to a more proactive value-added approach. They are applying the internal audit standards /Performance and implementation/ and other frameworks to evaluate the strengths and weakness of an organization’s internal control, related risks and opportunities for achievement of the organization’s strategic goals.

1.2 Internal Audit in Ethiopia

The government of Ethiopia established task force In 2004 to evaluate public body IA, the team identified the major problems that the majority of Ethiopian Civil Service institutions neither have an effective internal audit arrangements nor skilled manpower, there was no link between institutional internal audit, None formal accountability structure, they engaged in pre audit activity, and there weren’t formal report relation with Ministry of Finance (*Task force report 2004*). Based on the taskforce recommendations the development and training of internal audit activities be moved out of OFAG to MoF.

The Ministry established internal audit development project, this project developed operational project training module based on institute of internal audit standards, delivered intensive training to Federal and Regional internal auditors, design internal audit organizational structure based on the size of public body annual budget, the size of property administered and number of branches, new prototype structure send to Regional Governments and City Administration, Inspection Directorate(MoF) responsibility has been transferred to public body internal audit and now all public body IA accountable to MoF. Efforts were made that the internal auditors can play their role to evaluate efficient and effective utilization of all types of Budgets.

This research is trying to assessing the factors that could challenge internal audit and prospects of this profession in selected government higher education institutions to maximize the role of internal audit in building efficient public finance administration.

1.3 Statement of the problem

As stated in the background, based on the recommendations of the taskforce MoF has designed internal audit project which facilitate the establishment of modern internal audit system at the federal level, and regional governments also established their own IA projects, They developed manual and training module by adopting the best practice of the internal audit standards and delivered intensive training for internal auditors. The ministry also designed organizational structure for internal audit with accountability to the top management. The House of People's representative's revised Financial Administration Proclamation number 648/2009 and issued amended Proclamation no. 970/2016. Based on this MoF issued directive No. 47/2016 and directive No 48/2016. Both documents revised the IA accountability structure and gave more responsibility to the head of public bodies to strengthen internal audit departments to timely submit finance and audit reports and for timely taking corrective actions on audit findings.

Even though MoF has implemented different Proclamations, Directives and Regulations IA still faces many challenges internally as well as externally. MoF semi-annual summarized internal audit findings report and yearly quality assurance evaluation program documents stated that lack of independence, absence of management respect, inconvenience working environment, lack of professional staffs, under staffed IA departments, difficult to gate certification training programs and unattractive salary scale are some of the problems. Further the researcher Agumas (2015) mentioned in his case study in Amhara National Regional State public sector internal auditors faces a big challenge where there is lack of formal mandate, lack of top management support and lack of unrestricted access. Asmamaw (2011) mentioned in his case study there is less staff expertise which will have greater influence on the quality of internal audit. Shewamene (2014) argued that lack of sufficient training and professional certification for the existing IA staffs. Dagnu (2015) realized that some internal auditors have not that much integrity in discharging their duties and responsibilities effectively. As a result, internal auditors may perform their duties without care and understanding which resulted inefficiency. Habtamu (2015) mentioned in his study that IA focusing their activities on compliance with laws and regulations, detections of errors and fraud, assessing unethical behavior of management and evaluating management's efforts in recovering debts, the

scope of the internal audit activities is limited, Little attention is paid to risk assessment and management which is the modern trend of internal audit. Ikutu (IA Research team in south Africa) (2014) mentioned in their case study compared public sector to the private sector, or the fact that suitable qualified internal auditors who could apply for this position simply do not exist and another important factor selected by CAC (Composition of audit committee) respondents was that their IAFs were not well structured, making it difficult to define the parameters of the vacancies.

As indicated above the studies on internal audit in Ethiopia indicated some weakness and problems related to the function. Problems and challenges faced by the IA department may not necessary be the same in all government sectors higher education institutions have their unique financial and operational problems there activities do not coincide with other public bodies. This study, therefor, focuses on internal audit practice in higher education institutions. The study is an attempt to specifically address the challenges of internal audit in higher education institutions and the prospect for successes of IA in these institutions. More specifically possible solutions provide for the following basic questions.

1. Do internal auditors still face challenge, in government higher education institutions after issuing amended proclamation no. 970/2009 that IA accountable to MoF?
2. What are the major current challenges internal auditors encounters in performing governances, risk management and internal control processes in government higher education institutions?
3. What should be the future of internal audit to assure institutions performance?

1.4 Objectives of the Study

This study consists of general and specific objectives.

1.4.1 The General Objective

The general objective of this study is to assess the challenges and prospects of IA in performing the audit function in selected government higher education institutes and to recommend the solutions.

1.4.2 Specific Objectives of the study

Particularly, the study will address the following specific objectives to:

- Identify the major challenges in which the internal auditors in assuring the existence of governance frameworks.
- Ascertain the key difficulties of internal auditors in evaluating internal controls.
- Examine the existence of quality assurance and improvement program
- Describe the compliance of internal audit process with internal audit standards;
- Delivers suggested solution for the problem identified?

1.5 Significance Of The Study

The internal auditors have a significant impact to control any non-compliance activity in line with laws and regulation's set by the government which could have a substantial impact on the public body's efficient budget utilization. The internal auditors are also evaluating the internal controls, risk management and governance and advise the management to have strong and efficient internal control systems.

Today FGE annual budget will increase dramatically, from the total budget of 370 Billion birr (2017/18) 25% allocated to education sector, but institutions in efficiently utilized, projects are not timely completed with allotted budget, inferior quality performance, equipment's purchased were poor quality, fraud and an ethical utilization of government budget increased. For the last ten years OFAG audit reports shows that FG budget utilization performance has a serious problem. All public bodies have their own internal auditors, laws and regulations issued, MoF avail continues training programs, but still public bodies budget utilization where not economical and inefficient.

Therefore, this research is very essential to show the challenges and prospects of internal audit. In addition, it's an important document to MoF to examine policies and procedures to strengthen IA, also it's important for the future researchers to use it as a reference, and the study provides the following significances.

- The findings of this study would enable the government/MoF/ to revisit the structure, accountability and capacity of internal auditors in public bodies;
- The output would be useful for public to build capable IA inside their Office;
- It helps to the government to design project to seek further study to strengthen capacity of internal audit;
- The results of this study could be used as a reference for further research in higher education institutes IA.
- Specific contribution to internal control system and internal audit could play in government entities.

1.6 Scope Of The Study

The study mainly focused on the assessment in seven selected universities. And also Inspection Directorate of MoF has been included in the study as one institution, because all IA in public bodies administratively accountable to this directorate.

1.7 Limitation Of The Study

So far we have 42 active government higher education institutes. The finding of this study would have been more productive if it has been conducted on at least 50% of Government Universities top managements, internal audits, Finance departments, Procurement, Human Resource and other departments. Though, due to various reasons only seven government higher education institutes included in this sample size because there is a shortage of time and financial constraints, low response rate to the questionnaire, the respondents were very busy and they were not interested to fill the questionnaire seriously that's why the researcher has selected limited number of institutions.

1.8 Organization of the Study

The study is organized into five chapters. The first chapter consists of background of the study, Internal audit in Ethiopia, statement of the problem, objective of the study, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter focuses on literature review. The third chapter deals with the methodology of the research, and the fourth chapter presents the data presentation and analysis. Finally, the fifth chapter contains the conclusions and recommendations

CHAPTER TWO LITERATURE REVIEW

2.1 Definition Of Internal Audit

The definition of internal auditing stated by different scholars is arrived at its recent official definition that had been issued by Institute of Internal Auditors. Internal audit has defined by Moeller (2005) as an independent appraisal function established within an organization to examine and evaluate its activities a service to the organization. This definition has given more emphasis on the internal audit being established within the organization. (ebooksclub.Org) set that Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person. Sawyer (2003) defined the internal auditing as a systematic objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether financial and operating information is accurate and reliable risks are identified and minimized; external regulations and acceptable internal policies and procedures are followed; satisfactory operating criteria are met; resources are used efficiently and economically and the organization's objectives are effectively achieved recently. The Institute of Internal Auditors (IIAs) has defined the internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA 2015).

The new IIA definition has brought changes in the scope and role of internal audit activities in both private and public sectors, assurance and consulting activities has been included in the definition and individual auditor who may be outside the organization allow contracted by the organization to provide an internal audit service.

The definitions mentioned above broadly agree that in order to achieve its objectives internal audits embodies an element of independence. In other words, complete objectivity should be maintained during the performance of the audits. Unless, independency sustained in the organization, the internal audit unable to discharge its roles in evaluate and improve economical, efficiency and effective utilization of resources and delivering proper recommendation.

2.2 Evolution of Internal Auditing

The concept of internal auditing (IA) is not new activity and records show that even the earliest of civilizations **had** some forms of internal auditing. Two IIA chartered member's remarks that "Necessity created internal auditing and is making it an integral part of modern business, No large business can escape it If they haven't got it now, they will have to have it sooner or later, and, if events keep developing as they do at present, they will have to have it sooner." Arthur (1944). "The Institute is the outgrowth of the belief on the part of internal auditors that an organization was needed in the structure of American business to develop the true professional status of internal auditing. Although its roots are in accountancy, its key purpose lies in the area of management control. It comprises a complete intercompany financial and operational review." Robert (1945). "The volume and complexity of the business's operations had contributed for growth of the internal auditing. It becomes a profession after the Institute of Internal Auditors lunched in the New York City in 1941 and had under gone many changes over subsequent years to result in the modern internal auditing.

Internal Audit has undergone a series of structural changes over the last years. The implementation of new rules and regulations concerning internal audit, the evolution of

new technologies, the economic crisis and the need for more intensive and continuous auditing by companies have resulted in many changes, not only in the process of internal audit but also in the role of internal auditors and the general scope of internal audit Bekiaris, (2013).

Internal auditing concentrated on an accounting oriented function that has been gradually transformed into management oriented profession. Even though internal audit and external audit face interrelated issues, in recent times, there has been a superior interest and more consideration placed on the internal audit, because internal audit gain evidence quickly and discover problems at an earlier stage than an external audit Samuel, (2008). The fact that internal audit interacts with the other control bodies of an organization, as a process of monitoring, and that its consulting role adds value to an organization, has established internal audit as one of the most important factors that define and improve corporate governance structure. Thus it can be regarded as an independent process for an organization, the value of which can be measured as that of an “intangible asset” Regoliosi and d’Eri, (2012). Greece, Drogalas (2011) conclude on his research “Internal audit has become more management oriented than it was in the previous years. In this concept to day internal audit by providing the assurance and the consulting services, can contribute to efficient governance in order to lead the institutes to managerial excellence. The internal auditor’s role in IT controls begins with a sound conceptual understanding and culminates in providing the results of risk and control assessments. Internal auditing involves significant interaction with the people in positions of responsibility for controls and requires continuous learning and reassessment as new technologies emerge and the organization’s opportunities, uses, dependencies, strategies, risks and requirements change. David (2005). The new IIA definition has brought changes in the scope and role of internal audit activities, assurance and consulting activates has been included in the definition and individual auditor who may be outside the organization allowed contracted by the organization to provide an internal audit service.

The above mentioned statements have shown that at the early stage internal auditors focuses on the verification of accounting documents. The modern concept of internal

auditing has extended its scope to cover the non-financial operations with the objective of ensuring effective utilization of resources, constantly reviews the various management functions like planning, policies and strategies adopted in achievement of objectives

2.3 The Purpose Of Internal Audit

Its main purposes are to provide an independent and objective review and advisory service for the public bodies financial and operational controls designed to manage the organization's risks and achieve the public body objectives are operating in an efficient, effective and ethical manner, and assist management in improving the public body's business performance. In the attribute standards 1000 IIA (2016) Purpose, Authority, and Responsibility of internal auditor must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. Ahmi and MH Shahdan (2014) on their study on IA in the state and local government of Malaysia found that, the effectiveness of the IA function in State and Local Government appears to be directly related to the management style of organization heads and their links, relationships and position in the social contract. Some IA function appears to be doing well; the determining factors appear to be the attitude and leadership qualities of the head of an organization. The role of the auditor is to act as an independent party, management decided to do things one way, and the question is whether the independent party the auditor, agrees with the approach. Does the process meet the objectives? Can you justify, your reasons for doing it that way? And if not, a discussion between management and the auditor should occur to develop agreement in perspective and approach. Why? Samuel (2017) Internal audit is about having a third party the auditor evaluate something financials or processes against specific criteria. What is not articulated is that the ultimate goal for either process is to make things better. This is done by reviewing items and comparing them to the expectation/criteria, Identifying exceptions, evaluating exceptions, fixing any errors that can be fixed, recommending

improvements to avoid exceptions in the future and helping to mature processes and auditability.

Purposes of auditing system in a Public Sector Management have three major types of reports Angus, (2011). These are for:

- The internal reporting to managers for purposes of planning and control of current and anticipated operations.
- The internal reporting to chief executives and directors or managers for institutional policy decisions and the formulation of long range plans.
- The external reporting mainly for credibility purpose before external entities, government, financial houses, foreign creditors especially for legislation and decision on lending and investment activities.

In 1978 IIA formally approved the *Standards for the Professional Practice of Internal Auditing (Standards)*, which had the following purposes:

- Assist in communicating to others the role, scope, performance, and objectives of internal auditing.
- Unify internal auditing throughout the world.
- Encourage improved internal auditing.
- Establish basis for consistent measurement of internal auditing operations.
- Provide a vehicle by which internal auditing can be fully recognized as a profession.”

2.4 Internal Control

Internal control defined as COSO (2012) is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. As stated in the INTOSAI GOV 9100, internal control is an integral process that is affected by an entity’s management and personnel and is designed to address risks and to

provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

This definition emphasizes that internal control is geared to the achievement of objectives:-

- Operations Objectives:- effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
- Reporting Objectives:- pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, standard and policies.
- Compliance Objectives:- to adherence to laws and regulations to which the entity is subject.
- A process consisting of ongoing tasks and activities it is a means to an end, not an end in itself
- effected by people it is not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization to affect internal control
- Able to provide reasonable assurance,
- Adaptable to the entity structure

Internal control is an active process that is continuously adapting to the changes an organization is facing. All level managers have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's objectives.

The role of internal control is to help the organization to achieve specific goals or objectives. COSO Framework's role is to drive internal controls and to allow the realization of these goals using improved organizational performance and governance. Therefore it is vital that all structures comply with internal control principles. Principles must also be relevant to the organization. Only in this way the value-adding internal control is created COSO (2012). Besides, American Institute of Certified Public Accountants Sawyer, (2003) has defined the internal control as it comprise the plan of

organization and all of the coordinate methods and measures adopted within a business to safeguarded its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Moreover, the standards published by IIA stated that the internal controls designed and implemented to ensure the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economical and efficient use of resources; and the accomplishment of established objectives.

Furthermore, internal control defined as the organization, policies and procedures used to help that public body programs achieve their intended results; that the resources used to deliver these programs consisted with the stated aims and objectives of the organizations concerned; that programs protected from waste, fraud and mismanagement; and that reliable and timely information obtained, maintained, reported and used for decision making Allen and Tommasi, (2001).

In other case study undertaken by Amudo and Inanga (2009), described that a critical evaluation of internal control structures in organization, helps to ensure that the organization's activities carried out in accordance with established goals, policies and procedures.

2.4.1 Internal Control Components

A system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These policies and procedures are often called controls, and collectively, they make up the entity's internal control (Auditing and assurance service 14th edi p289). Management typically has three broad objectives in designing an effective internal control system:

- Reliability of financial reports
- Efficiency and effectiveness of operations
- Compliance with laws and regulations

As per COSO (2012) frame work internal control consists of five components:

2.4.1.1 Control environment:- It's the integrity and ethical values of organization, the Board of directors and senior management establish the tone at the Top regarding the importance of internal control. Top management set organizational structure, procedure, standards, human resource, policies and practices.

2.4.1.2 Risk assessment:- It is the process of identifying and analyzing internal and external risks those adversely affect achievement of organization's objectives and determining the appropriate risk response. It implies that risk identification, evaluation, assessment of the risk appetite of the organization, and development of responses.

2.4.1.3. Control activities: it's a strategy for mitigating risk which includes the preventive and/ or detective internal control measures taken. Actions established through policies and procedures that ensure management's directives to mitigate risks to the achievement of objective. The preventive and detective controls include authorization and approval procurers, segregation of duties, control over access to records, verifications, reconciliation, and review of operating performance.

2.4.1.4 Information and Communication:- is necessary for the entity to run and control responsibility to support successes achievement of objectives. Management obtains or generates and uses relevant, complete, reliable, correct and timely communication related to internal as well as external events. Communication is continues process of providing, sharing and obtaining necessary information throughout the entity to achieve its objectives.

2.4.1.5. Monitoring:- The organization uses ongoing, separate evaluations, or some combination of the two, to ascertain whether the components of internal control are present and functioning. Monitoring is a key input into

the organization's assessment of the effectiveness of internal control. It provides valuable support for assertions, if required, regarding the effectiveness of the system of internal control. Monitoring activities assess whether each of the five components of internal control is present and functioning COSO.

2.5 The Role of Internal Audit in Control Process

American Institute of Certified Accountants (AICPA) in 1949 Defined Internal control as “a plan and other coordinated means and ways by the enterprise to keep safe its assets. Internal control is a process affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

Internal control is providing a foundation for accountability in government responsibility for providing an adequate and effective internal control structure rests with an organization's management (INTOSAI GOV 9120). The head of each governmental organization must ensure that a proper internal control structure is instituted, reviewed, and updated to keep it effective. Management often establishes an audit unit as part of its internal control and self-assessment framework. The auditors' role is to audit an organization's internal control policies, practices, and procedures to assure that controls are suitable to safeguard the institution assets and to achieve organization's objectives. Internal audit and internal control are different regarding the functional level but the final goal is same. They also differ in the degree of independence, responsibility and reporting level in the organizational structure.

Internal audit assesses the effectiveness of controls put in place to mitigate risks. Manoukian, (2016). Therefore, internal audit is not responsible for identifying risks or putting control systems in place. However, internal audit can assist in this process by its consulting activities. It assesses the viability of solutions and processes that internal control has developed. It is a role of internal control to identify strategical as well as operational risks relevant to operations and development of reliable controls.

“Internal controls differ from internal audit in that it is not just about assessing and evaluating a company’s compliance position in an oversight capacity but the internal control function needs to be a proactive participant in defining, documenting, communicating, educating, testing, and supporting the company’s operational and financial goals and objectives.” Hightower, (2008). There for the most important differences between those two concepts is Internal audit is independent of the organization’s management and its part of internal control while Internal control is the lows and regulations management issued and the designed systems to maximize the probability of achieving organizational objectives.

2.6 Internal Audit Independence

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

However, internal audit is not independent of the organization in the same way as the external audit function. It provides a service to management, reports to the Board of university and MoF for the achievement of its objectives and the use of its resources. Its independency and objectivity would be maintained by appropriate placement and organizational status, reporting relationship, accountability, competency, and legislative requirements.

IIA Standards distinguishes between the two concepts in the following way:-

- “Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.” IIA standards. aspx January 2017 mentioned
- “Objectivity unbiased mental attitudes that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity

requires internal auditors not to subordinate their judgment on audit matters to that of others.”

The independence of the internal audit department and the level of the authority to which the internal audit staff report are the two most important criteria influencing the objectivity of their work. Clark, Gibbs and Shroeder (1981), in Cohen and Sayag research, (2010)

In addition, to maintain the independence of internal audit, countries like Canada, its personnel report to the CAE, who reports directly to the Commissioner. To ensure objectivity and independence, any audits of functions for which the CAE has responsibility (such as evaluation, ethics, etc.) will be performed by either an external auditor or by a contracted third party. Consult the IIA Standard on independence and objectivity. The Treasury Board Policy on Canadian Internal Audit. (2017).

Moreover, in the United States of America, following the 1978 Inspector General Act, an Inspector General (IG) established in almost all agencies, as head of the internal audit and it is kept separate from the rest of the agency. Under this Act, the IG is required to submit all reports directly to the head of the agency and also is required to keep Congress informed of their work Diamond, (2002). This keep informing the Congress has created independence to Inspector General of each agency.

2.7. Audit Committee

The audit committee is a subcommittee of the board of directors which plays a very important role in corporate governance and the internal audit procedure by monitoring managers’ activities concerning financial disclosure Sarens and Abdolmohammadi, (2011). According to a survey of the CICA in 1981, there are five aspects concerning the responsibilities and objectives of audit committees.

- It must help the board of directors in governance matters, especially those concerning financial reporting.
- It must also facilitate the communication and the cooperation between the board of directors and the external auditors

- Ensure the independence of external auditors in their audit work.
- Must enhance the validity of financial disclosure and guarantee transparency in financial reporting and.
- Finally it aims to strengthen the position of outside directors by improving the relationship and the communication between outside directors, company's directors, managers and auditors Green, (1994).

Al-Ajmi, (2009) stated that the audit committees' monitoring procedures must ensure the transparency of financial reporting and audit committee is obliged to promote communication between the external auditors and the company's board of directors and the audit committee itself. In order to improve the efficiency of audit committees, KPMG has published a report which proposes five guiding principles for audit committees KPMG, (2006). The first principle states that no specific structure and size of audit committee exists which can be considered effective for all organizations, but rather it depend on each company's needs. Moreover, the selection of the right members who constitute the audit committee is also a determinant factor of its effectiveness while monitoring and controlling are among the first priorities of the audit committee. In addition the Sarbanes-Oxley act in (2002) published another six obligations for audit committees regarding the audit procedure and corporate governance. Concerning the composition of the audit committee, it must be constituted exclusively by independent non-executive members coming from the board of directors. Audit committee is also completely responsible for the selection and the monitoring of external auditors as well as for the audit fees. It also has the right, if needed, to ask the contribution of outside advisors. In addition, companies must provide to the audit committees the necessary economic resources in order to reach its objectives while the audit committee must be informed about the company's accounting policies and the auditing methods. Finally, as it is recommended by the Blue Ribbon Committee (1999), an annual report published by the audit committee must be included in the company's financial reports Rezaee et al., (2003). However, despite of this increasing concern, the published guidelines and

regulations for the audit committees, Cohen et al., (2002) find that audit committees do not have the expertise to reach their objectives and to communicate effectively.

2.8 Public Sector Governance and Governance Framework

IIA standard 2130 /2010 stated that internal audit activity should assess and make appropriate recommendations for improving the governance process to accomplish the following objectives: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, and effectively coordinating the activities of and communicating information among the Board`s external and internal auditors and management. Similarly, Office of the Auditor General of Columbia 2008 has defined the public sector Governance is typically about the way public servants make decisions and implement policies. Having appropriate structures and processes in place to guide actions is important, but at every level within an organization from the individual through to sections, branches and all the way up to the whole organization there must also be a common understanding of what good governance means. Five key principles support good governance i.e.: accountability; strong leadership; integrity; stewardship; and transparency *Good Governance in the Public Sector International Framework (2013)*

Accountability:- is the process whereby public sector organizations, and the individuals within them, take responsibility for their decisions and actions. They are willing to submit themselves to scrutiny to ensure that the responsibilities conferred—pertaining to everything from probity and ethics to the effective and efficient implementation of programs.

Strong leadership:- sets the “tone at the top” and is absolutely critical if an entire organization is to embrace good governance. leaders must not only demonstrate ethical behaviour themselves, but require ethical behaviour of all staff throughout the organization and a commitment by everyone to the practice of good governance.

Acting with integrity:- means being impartial, ethical and not misusing information or resources. An organization with integrity maintains high standards of propriety

and probity in the stewardship of public funds. It does this by having an effective control framework in place, abiding by relevant legislation, regulations and policies and instilling high standards of professionalism at all levels within the organization.

Stewardship:- is the act of looking after something on behalf of others to protect or improve its sustainability. In the public sector, it relates to the way public officials exercise their powers on behalf of the public they serve.

Transparency:- is achieved when an organization's actions are open to scrutiny. It means stakeholders, the public and employees have access to full, accurate and clear information about the organization's decisions.

2.9. Internal Audit Role in Governance

The word governance has become a staple of the boardroom and C-suite lexicon, but just what governance is can sometimes become muddled. At its core, governance simply is the amalgam of processes and structures designed to help the organization achieve its objectives. These processes and structures are influenced not only by risks that affect an organization's ability to achieve objectives but also by the organization's efforts to mitigate known risks and discover unknown risks. Corporate governance is defined as a nexus of procedures, policies, laws and regulations which play important role in the way an organization is governed and controlled Gstraunthaler, (2010). Moreover, it determines the relationships between management, ownership and other interested parties of the organization and sets corporate goals Broni and Velentzas, (2012). These processes and structures are influenced not only by risks that affect an organization's ability to achieve objectives but also by the organization's efforts to mitigate known risks and discover unknown risks IIA (may 2018). In both the public and private sectors, internal audit has long been recognized by better practice entities as a valuable resource and entities have given the internal audit function a key role in their governance arrangements. The Institute of Internal Auditors (2009) has stated that the internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Coordinating and communicating information among the board, external and internal auditors and management.
- Gave an assurance on effective organizational performance management and accountability;
- Promoting appropriate ethics and values within the organization;
- Communicating risk and control information to appropriate areas of the Organization.

The Internal Audit Framework (2009), mentioned that the role of internal audit with respect to good governance should be to assist organization in achieving its goals, creating and maintaining particular values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and processes used to monitor achievement. Governing bodies and senior management in the public sector need the services of internal audit to be effective and efficient. At the same time the legitimacy of internal audit activity and its mission should be supported by senior management of government entities to enhance its effectiveness in promoting good public sector governance, control and risk management systems Asare (2009).

Internal audit effectiveness strongly influenced by internal audit quality and management support and implementation of recommendations strengthen internal audit effectiveness.

2.10 Internal Audit Role In Risk Management

Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The role of Internal Audit is likely to differ from one organisation to another. In practice, Internal Audit's role may include some or all of the following: /A Risk Management Standard IRM: (2002)

- Focusing the internal audit work on the significant risks, as identified by management, and auditing the risk management processes across an organisation

- Providing assurance on the management of risk.
- Providing active support and involvement in the risk management process
- Facilitating risk identification/assessment and educating line staff in risk management and internal control.
- Coordinating risk reporting to the board, audit committee, etc. In determining the most appropriate role for a particular organization, Internal Audit should ensure that the professional requirements for independence and objectivity are not breached.

Enterprise-wide risk management (ERM) is a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

Greater management focus on the issues that really matter; Fewer surprises or crises; More focus internally on doing the right things in the right way; Increased likelihood of change initiatives being achieved; Capability to take on greater risk for greater reward and More informed risk-taking and decision-making. The activities included in ERM Articulating and communicating the objectives of the organization; Determining the risk appetite of the organization; Establishing an appropriate internal environment, including a risk management framework; Identifying potential threats to the achievement of the objectives; Assessing the risk i.e. the impact and likelihood of the threat occurring; Selecting and implementing responses to the risks; Undertaking control and other response activities; Communicating information on risks in a consistent manner at all levels in the organization; Centrally monitoring and coordinating the risk management processes and the outcomes, and an informed world that keeps turning ever faster makes it essential for governments to be well informed by internal audit about the risks and improvements in public finance management and service delivery Cecilia Nordin Van Gansberghe,(2005). This shows that internal audit has greater role in the assurance of the risk management of public financial management and efficient service delivery of public bodies.

Potential sources of risk and uncertainty include economic and financial changes; business relationships and obligations; legal expectations and liabilities; technological developments;

political changes and trends; natural events; human resource issues; leadership and management change; and system weaknesses. *Risk management guidance for Government Departments and Offices February (2016)* .

An effective risk management can help the organization to identify some potential risks may arise in implementing the strategy. Based on the assessment of potential risks, the organization is able to identify a number of strategic options to maximize benefits.

The IIA standards covering the internal auditing role in risk management activities in sections 2210 confirm that internal auditing must assess the effectiveness of risk management as well as subsidies its management process the IIA, (2011). Consequently, the brief historical improvements in the role of internal auditing in risk management started in 1999 with the new above definition for internal auditing. Then after releasing the COSO ERM framework in (2004), the IIA released a position paper to clarify the role of internal auditing in ERM (revised in 2009) In the position paper the IIA confirmed the related standards by assuring that the main role for the internal audit in ERM is providing objective assurance to the top management on the Effectiveness of risk management. According to this paper, the role of the internal auditors is classified into three types as follows:

- 1 Core internal auditing roles in ERM
- 2 Roles with reviewing the management of key risks
- 3 Roles internal auditing should not undertake

Internal audit groups conduct an enterprise-level risk assessment on at least an annual basis and apply the results when developing their annual audit plans waterhouse Copers (2006). In other study undertaken by Spira and Page (2003), stated that the internal auditors are potentially important stakeholders and actors in the risk management process and because their functions spread across organizational boundaries in an unrivalled manner. Internal audit assess risk management framework a top-down way of the organization's risk management structure, activities, policies and reporting practices. In addition, internal audit needs to document the organization's risk profile and risk appetite

and verify that its risk management structure and processes are effectively aligned with risk profile.

2.11 Quality Assurance and Improvement Program

Audit committees and business leaders that place reliance on internal assurance services need to be assured that those services meet the Standards, and that improvement opportunities are identified and addressed.

(According to The Institute of Internal Auditors standard number 1300) and its Practical Advisory the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of internal and external assessment.

1311 – Internal Assessments

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. (IIA 2016)

This program is designed to evaluate internal audit activity's conformance with the Internal Audit Standards. It helps to evaluate whether internal auditors apply the Code of ethics or not in their audit activities.

2.11 IA Quality Assurance in Ethiopia

MoF has a quality assurance program in 2016 in selected 20 public bodies, the team report identified problems that Non comfortable working environment, lack of audit program, poor quality working paper or they don't have any working paper, Current and permanent files were not properly documented, lack of team spirit, lack of qualified auditors, difficult to recruit new auditors and other problems identified. Based on the team recommendation, MoF prepared and took improvement program. *Quality assurance assessment team Report (2016)*.

2.12 Internal Audit Standards

Internal audit work is conducted in accordance with professional standards. The most recognized standards are attributes, performance and implementation standards are included in the Institute of Internal Auditors. In 1978, the IIA formally approved the standards for the professional practice of Internal Auditing Standards which had the following purposes Sridhar (2003).

1. Assist in communicating to others the role, scope, performance, and objectives of internal auditing.
2. Unify internal auditing throughout the world.
3. Encourage improved internal auditing.
4. Establish basis for consistent measurement of internal auditing operations.
5. Provide a vehicle by which internal auditing can be fully recognized as a Profession.”

The Standards contained the following definition and objective of internal auditing: “Internal auditing is an independent appraisal activity established within an organization as a service to the organization. It is a control which functions by examining and evaluating the adequacy and effectiveness of other controls. The objective of internal

auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.” *Sridhar in Internal Auditing: History, Evolution, and Prospects (2003)*

The Standards are the criteria by which the operations of an internal audit department are evaluated or measured. They are intended to represent the practice of internal auditing as it should be. The Attribute Standards address the attributes of the 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.

The Institute of Internal Auditors position paper (2009) stated that, as the IIA principal interest is to promote internal audit activities that provide effectiveness in achieving the organization’s strategic objectives. Regarding the compliance of these standards in the South Africa, the study conducted by Marinda et al (2009) has revealed that South Africans have a higher level of compliance with the Standards than those respondents residing in other parts of the world. Since the internal auditing profession is so young in South Africa, compliance with the Standards gives structure and support to the new internal audit activity and internal auditors. In other study, on the compliance of the internal auditing standards, an Asia – Pacific profile Leung and Cooper, (2009) has revealed that all report from five countries (i.e. Australia, Japan, China, Taiwan and New Zealand) to have a reasonably high level of usage of Standards. In addition, the Common Body of Knowledge CBOOK, (2006) in internal auditing has stated that compliance with the IIA’s International Standards for the professional Practice of Internal Auditing is essential if the responsibilities of internal auditors to their organizations are to be met.

Therefore, internal auditors who either working in private or public sectors should strictly follow the internal audit standards in their rendering services of assurance and consulting activities for their institutions.

The Standards comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services (2016) The Institute of Internal Auditors/.

The Institute of Internal Auditors position paper (2010) stated that, as the IIA principal interest is to promote internal audit activities that provide effectiveness in achieving the organization's strategic objectives. Hence internal auditors who either working in public or private sectors should follow the internal audit standards in their services of assurance and consulting activities.

2.13 Gaps in the literature

The Importance of Internal Auditing in Ethiopia was formally recognized in the early 1930s by the country's first Constitution which referred to the proper collection of state revenue and the necessity for procedures to control expenditures (Lemma, 2000). To make efficient internal audit in the government higher education institutions MoF designed IA structure and approved by civil service minister, set minimum number of staffs, education statues, work experience and establish comprehensive training program. Though, the government has given attention to develop strong internal audit system especially in government higher education institutions but OFAG annual audit report shows (2017/2018) still above 25 universities have an Adverse audit opinion and the root cause of findings are:- different benefits payment rate, lack of respecting procurement procedures, legal frame work differences (Proclamation MoF 648 and MoE 650) recently MoF and MoE take different legal frame work improvement program.

Limited studies have been conducted in public bodies internal audit challenges relating to efficient and effective utilization of public resources Kaldier (2015), Asmamawe (2011),

Alemayehu (2016), Samual (2008), Shewamene (2014), Assefa (2009) and DR.D.Guruswmy (2012) Most of these studies were performed in public bodies and few on government higher education institutes. The review suggests the following gaps in the literature:

- The internal audit focus mainly on the traditional paradigm of internal audit functions that focuses on compliance with laws and regulations, evaluating accounting errors/ mistake, and fraud rather than addressing risk assessment and management.
- The scope of the internal audit activities is limited, Lack of Audit committee, Lack of adequate resource and inconvenience working environment.
- Internal audit department are not smooth and they are not accomplishing their work in a state of cooperation, the relationship between internal audit department and line management are week and could affect the company's operational, efficiency and effectiveness.,
- lack of opportunity for professional development and domination by dishonest management,
- Internal audit staffs are not possessed knowledge & skills in a variety of areas. There is no quality assurance program in audit department.

These are few findings in public bodies, but universities finance administrations have unique behaviour and it's difficult to manage through formal finance regulations. In the context of the scope of the internal audit function, (IIA 2012) states that the internal auditor should evaluate and contribute to the improvement of risk management; control and governance systems.

Thus, this study aim to farther examine IA challenges in risk management, control and governance, working environment, legal frame work problems and other challenges in government higher education institutions.

CHAPTER III

RESEARCH METHODOLOGY

The research employed qualitative research specifically descriptive approach. The data's were primary and secondary. The study used both sampling and non-sampling methods. The study focused seven government higher education institutes that were selected randomly from 42 universities. The selected universities were Medewelabo, Hawassa, Addis Ababa Science and Technology, Arisi., D.tabor, Dere Dawa, Dilla, JigJiga and Civil service University, In addition to these, Inspection Directorate of MoF was selected for enforcement purpose because it has regulatory role in the internal audits system of the country.

3.1 Research Design

As it has been described by Cresowell (2009), descriptive research approach methods is a fact finding with adequate and accurate information; it describes and interprets what is concerned with the condition or realities that exists such as opinions that are held, process that is going on; effects that are evident or trends that are developing primarily; it is also concerned with the present, although, it often considers the past events and influence as they relate to the current conditions. Quantitative research is considered more reliable than qualitative Investigation this is because a quantitative approach aims to control or eliminate extraneous variables within the internal structure of the study, and the data produced can also be assessed by standardized testing Duffy (1985), Duangtip, (2009). Therefore descriptive research method is applicable for this study because the main concern of the study is to assessing factors that challenges and prospects of internal audit

activity in selected government higher education institutes in governance, control and risk management.

3.2 Data Sources

The primary and secondary data are used to accomplish the study, and to collect the data from the respondents the sample questionnaires collected from website and IIA certified internal auditor's model exam questions were modified and distributed. The primary sources generated through both open-ended and structured questionnaires which will be distributed to internal heads, finance heads and senior experts or team leaders from two departments, inspection directorate and personal interviews with some top managements and will be reviewed internal audit plans and quarter reports.

Moreover, for additional enforcement purpose, the focus group discussion held with staffs of Inspection Directorate to get more data that uncovered by the questionnaires and to cross check the responds of the internal audits. The secondary data sources were article reviews, Research papers, books, journals, quarter audit reports, OFAG annual audit report, IA annual plan, working papers, and documents on websites and other related documents.

3.3 Sampling design

This study focused on specific government universities internal audit challenges and prospects. There are 42 universities in the government organs which are administer and manage huge amount of government resources. The study used simple random sampling technique with a criterion of one university from each regional government and having OFAG adverse audit opinion. The new 11 universities are not included in the sample due to new financial administration and their small yearly budget share. The remaining 31 universities in the population are (AAU, Adama, Arise, Medewelabo, Welega, Metu, Mizan, Axsum, Adigrate, Mekele, Woldiya, Desse, D.Tabor, Gonder, B.Dare, D.Marekose, Ambo, Assossa, Gamebela, Jigjiga, Deredawa, Semera, Welekete, Bulehora, Dilla, Wolayeta, Hawasa, Arebamench, Wachamo, AATechnology, D.Berehane) universities included. The new proclamation 970/2009 stated that all federal public bodies including universities internal auditors accountable to MoF, Inspection

Directorate (MoF) also included in the study as one institution in the study through questionnaires and focus group discussion.

3.4 Methods of Data Collection

The data collection process will be carried out using the questionnaires distributed for internal audits (i.e. heads of IA and senior auditor). In addition, to increase the credibility and validity of the data gathered from IA, questionnaires distributed for heads of finance and inspection directorate members, and additionally interview conducted with audit directors; focus group discussion held with Inspection Directorate members; and annual audit plans, quarter reports and quality assurance of internal audits of the selected universities were reviewed.

The reasons to employ these instruments were the interview is very important as it yields information that can be used with all kinds of people. Clear instructions are given for the respondents to avoid partiality and it also ensured a great reliability of the accuracy can be checked by additional questions. The collected data is easily constructed and tabulated. It is free from the bias of the interviewer and answers are in respondent's own words; and respondents have adequate time to give well thought out answers. The focus group discussion held with four group leaders and two experts of Inspection Directorate of MoF. Questionnaires issued to the participants and the procedures introduced before the discussion took place. The researcher issued questions, taken notes and also recorded using a recorder later to be translated. In addition the selected universities audit plan, quarter audit reports and quality assurance reports evaluated against the response.

3.5 Data Analysis

The raw data collected then view of the descriptive nature of this study, the raw data collected through questionnaires carefully tabulated. The descriptive nature of data, Interviews and focus group discussion described and included in the data presentation and analysis. Depending on the type of basic questions and nature of the data, a descriptive method of data analysis such as ratios and percentage will be used.

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.1. Data gathering

The assessment has carried out using questionnaires, focus group discussion and review of annual audit plans and quarter audit reports. The goal of the study was to assess challenges of internal audit in evaluating the effectiveness of control, risk management and governance process.

Questionnaires distributed for 8 government higher education heads of internal audits, senior auditors, finance heads, senior finance experts and 8 Inspections Directorate expertise. The total response rate was 93% as it indicated in Table 1.

In addition 4 team leaders and director participated in the focus group discussion. The assessment results summarized and tabulated in 26 Tables and 10 Figures that presented in this chapter.

Table 4-1: Questionnaires Response rate

Name of institution	Participants	Issued	Collected
Dire Dawa University	Head of internal audit	1	1
	Senior auditor	3	3
	Finance director/ Senior Acc.	4	2
JigJiga	Head of internal audit	1	1
	Senior auditor	3	3
	Finance director/ Senior Acc.	4	3
Debere Tabor University	Head of internal audit	1	1
	Senior auditor	3	2
	Finance director/ Senior Acc.	4	4
Hawassa University	Head of internal audit	1	1
	Senior auditor	3	2
	Finance director/ Senior Acc.	4	3
Medewelabo University	Head of internal audit	1	1
	Senior auditor/	3	2
	Finance director/ Senior Acc.	4	3
Dila University	Head of internal audit	1	1
	Senior auditor	3	2
	Finance director/ Senior Acc.	3	3
AA Since Technology	Head of internal audit	1	1
	Senior auditor	3	3
	Finance director/ Senior Acc.	4	3
Arisi Univ.	Head of internal audit	1	1
	Senior auditor	3	3
	Finance director/ Senior Acc.	3	3
Inspection Directorate /MoF	Head of Director	1	1
	Team Leaders	3	3
	Senior auditor	6	4
Note 32 IA/ 28 other staffs	Total	72	60
	Total response rate	93%	

Source: Field Survey

4.2 Respondents' Profile

Figure 4-1: Educational background

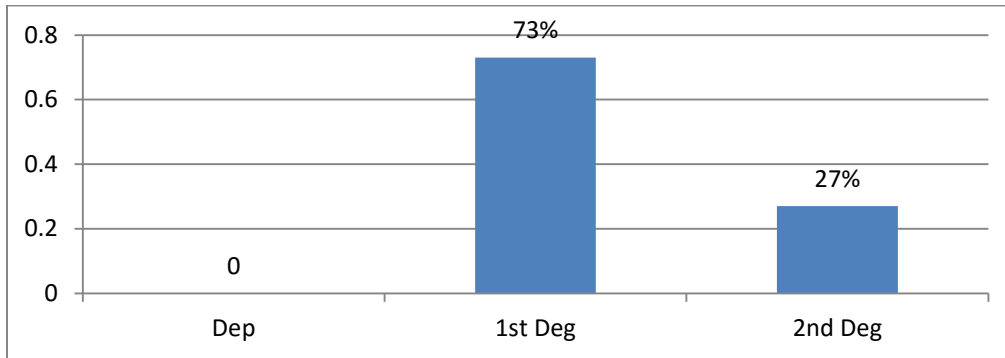
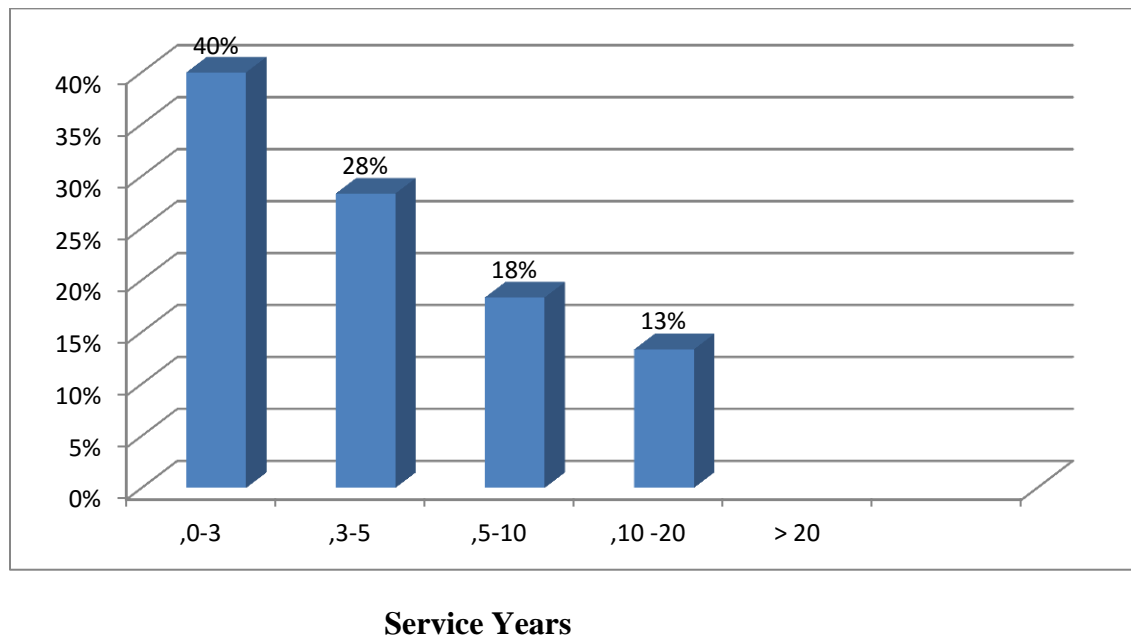
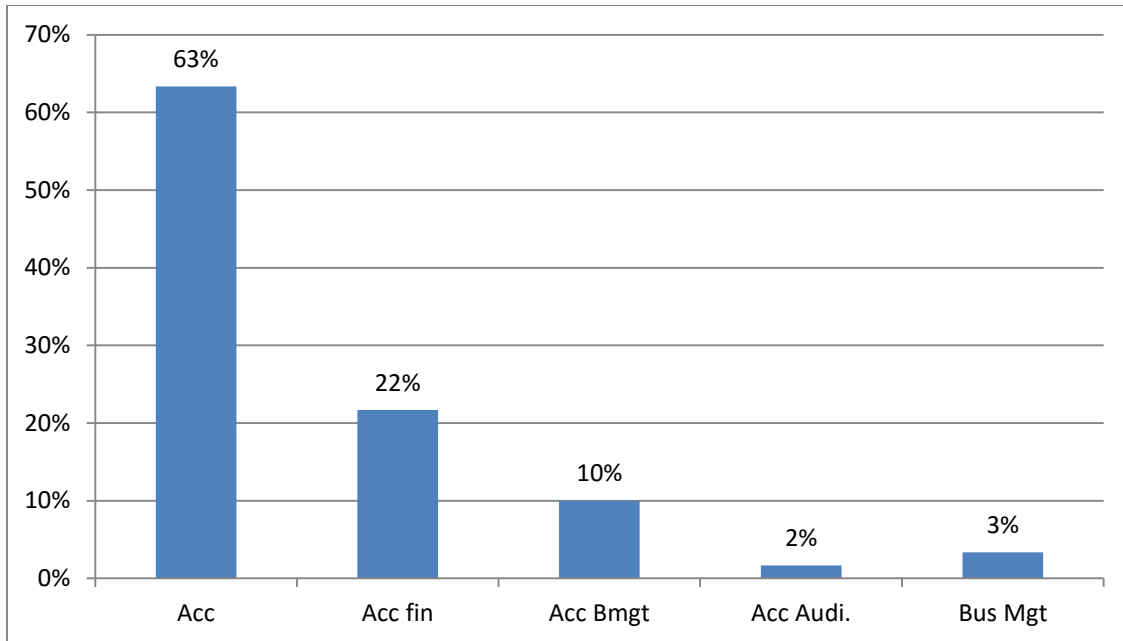


Figure I: Respondents' Educational background

Figure 4-2: Respondents' Work experience



Source: Field Survey

Figure 4-3: Respondents' field of Study

Source: Field Survey

In Figure 4-1 summarized data shows the educational background of respondents. The majority of the respondents (i.e. 73%) are BA degree holders followed by MA 27% the auditor's education background. This result indicates that the auditors academically well prepared. On the other hand Figure 4-2 offered the work experience of the respondents, Large number of them (40%) have 0-3 years of experience, 28% between 3 and 5 years of experience, 13% respondents 10-20 years of experience, no one above 20 years of experience; 68% of the respondents are young, and they are not able to evaluate the institutions governance, risk management and control process universities create convenience working environment to have experienced internal auditors. Figure 4-3 described that large number of respondents have accounting profession 63% and all are social science profession, but in addition it needs engineers, social workers, sociologist, and other species to advice and assure the management, No one professionally certified auditors, In addition, out of 32 auditors, only 1 auditor is the member of Institute of Internal Auditors (IIA) while others are not. This showed that the majority of auditors were not actively participating in their professional association (IIA).

IIA stated that being a member of professional body that helps the internal auditors to enhance their competency in assurance and consulting activities. The data showed that most of the internal auditors have adequate educational background, but lack of work experiences, lack of professional certification, it may reduce their competency to evaluate the effectiveness of government finance administration of their institutions.

4.3. Results and Discussions

4.3.1 Existence of Frameworks for Risk management, Control and Governance

Table 4-2: Internal audit role in governance

Do you agree that internal audit should play an important role in risk management, control and governance of their institutions	Number of respondents	%
Strongly agree	18	30
Agree	14	24
No specific view		
Disagree	16	26
Strongly disagree	12	20
Total	60	100

Source: Field Survey

MoF established internal audit in all institutions for self-assessment purpose and check the implementation of transparency and accountability in their day to day activities. This gives emphasis for the importance of the internal audit role in the governance process of institutions.

Table 4-2 shows that, above 50% of internal audit and finance directors reached on an agreement that internal audit should play an important role in governance of an organization, but 46% of them did not agree that internal audit capacity is limited to support risk management. Inspection directorate expertise also supports that with this

limited experience internal auditors did not able to give assurance on institutions governance, it needs to upgrade the capacity of IA through short term as well as long term trainings.

Table 4-3: The existence of policies, practices and procedures

I think that the policies and procedures are designed and documented to monitor performance, compliance, transparency and accountability in your institutions.	Number of respondents	%
Strongly agree	5	8
Agree	19	33
No specific view		
Disagree	16	28
Strongly disagree	14	23
No respond	6	8
	60	100

Source: Field Survey

Governance “refers to the structures and processes by which an organization is directed, controlled and held to account. The structures and processes are not ends in themselves. Rather, they are the means to help an organization achieve its objectives” George (2008). This framework used by top management of an institution to provide strategic direction, ensure objectives are achieved, manage risks and use resources responsibly and with accountability. Similarly, the institute of Internal Auditors (2016) stated that internal audit activity must assess and make appropriate recommendation for improving the governance process in accomplishment of its objectives.

Contrary to this view, as indicated in Table 4-3, the majority of the respondents disapprove the institutions have well designed & documented practices, policies and procedures to monitor performance, compliance, transparency and accountability.

The existence of designed and documented practices, policies and procedures are pre conditions for IA to play a great role in monitoring performance, compliance,

transparency and accountability in the institutions. So top management should document all policies and procedures.

Table 4-4 Internal audit major challenges observed so far

The major challenges observed so far in your institutions to discharge your role effectively and efficiently.	Number of respondents	%
Inconvenience working environment	19	23
Lack of transparency	15	18
Lack of independency	16	19
Lack of competency	14	17
Lack of Staffing	20	24

Table 4-4 shows that, the major challenges that faced the internal audits are Lack of staffing, inconvenience working environment, lack of independency, lack of skilled manpower, and lack of transparency were the main challenges that preserve the audit to approve the effectiveness of governance. The discussion team also argued that one of the causes that IA did not play an important role in the institutions is inconvenience working environment and as per proclamation 970/2009 MoF should responsible to strength IA to achieve organizational objectives.

Table 4-5: Institutional performance evaluation

Did internal audit departments evaluate the achievement of strategies, goals, objectives, outcomes, programs, and values of your institution.	Number of respondents	%
Strongly agree	6	10
Agree	7	12
No specific view	9	15
Disagree	5	8
Strongly disagree	33	55
Total	60	100

Source: Field survey

Table 4-5 depicted that, above 55% of the respondents took into account that the internal audit do not evaluate the achievement of strategies, goals, objectives, outcomes, programs, and values of their institutions. Inspection directorate director and team leader's group discussion also confirmed that internal audits attempts to evaluate the strategies, goals, objectives; programs & projects achievement was unsatisfactory. Furthermore, the reviewed internal audit plans and quarter reports discovered that except few attempts, the majority of internal audits did not include those activities in their annual plan and reports on the overall performance of their institutions, this implies that internal audit did not play the key role in measuring and evaluating the overall performance of the institution to add value for the achievement of objectives.

Table 4-6: Internal audit role to support governance process

How do you discharge your role to support the governance responsibilities of your organization?	Number of respondents	%
Oversight	29	48
Insight	23	38
Foresight	-	-
None response	8	13
	60	100

Source: Field survey

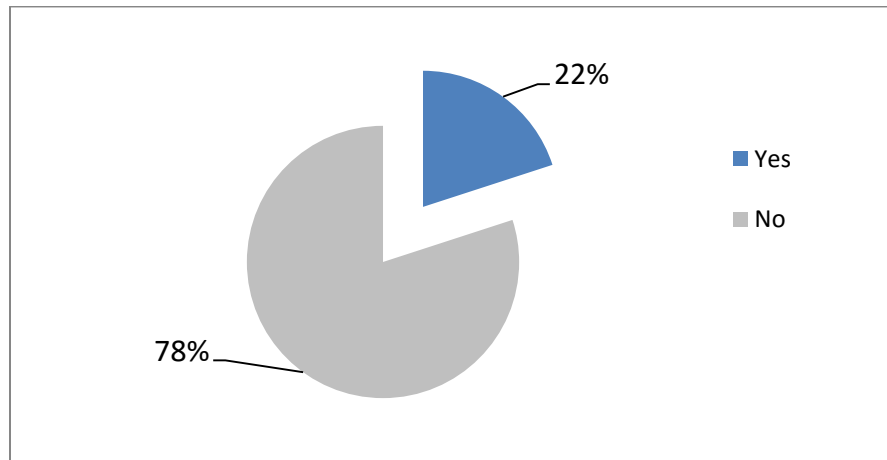
Table 4-6 showed that, 48% oversight and 38% focused on oversight and insight support consecutively. This indicate that most internal auditors addresses whether the selected institutions are doing what they are supposed to do and serves to detect corruption; and assist decision makers by providing an independent assessment of government programs, policies, operations, and results.

Internal audit provide unbiased objective assessments of whether public budgets are responsibly and effectively managed to achieve proposed objectives. With this context, internal audit support the governance responsibilities by oversight, insight, and foresight as stated by IIA (2016). But as discussed earlier, the selected institutions internal audits did not assess or evaluate the strategies, goals, objectives, outcomes, and programs.

Moreover, the internal audits do not identify trends and emerging challenge of their institutions (by foresight) to support the governance responsibilities. This showed that internal audit do not assess and forecast the risks of their institutions that requires future attention of the internal audits as well as the top management.

Figure 4-4: Receiving copy of operational report

Did internal audit received operational report from different departments



Source: Field Survey

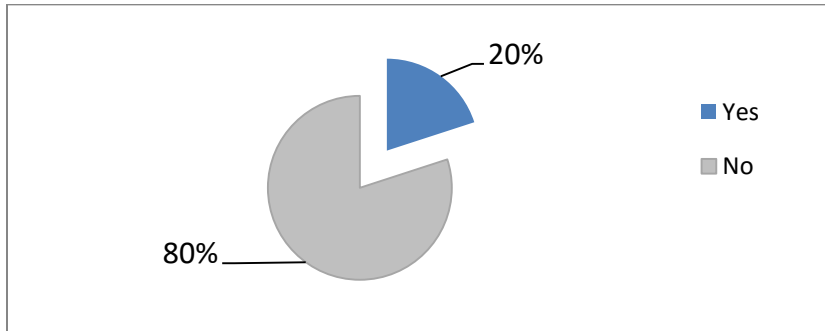
Figure 4-4: Indicated that 80% of internal auditors confirmed that internal audit department faced challenges gating copy of operational report from each department while some of them 20% confirmed they got the document as they need it..

According to IIA standards the internal audit give assurance on the reliability of information's that provided by departments to the top management for decision making. However, the above result indicated that the majority of internal audit did not receive the copy of operational reports that submitted to the top management within a specified period of time.

This implies that the internal audit of selected higher education institutions did not discharge their role as intended by IIA to evaluate the governance process and give assurance activity on the reliability of information provided by the operational departments.

Figure 4-5: Existence of defined standards for internal controls

Does your organization set standards that define minimum level of quality acceptance for internal control?



Source: Field survey

Figure 4-5 showed that 20% of the internal audits and finance heads agreed and 80% of them disagreed that the existence of minimum level of standards for internal control defined by their organization, while Inspection Directorate experts responds that MoF has prepared directive No 08/2010 for all budgetary institutions based on COSO frame works, but internal auditors did not approve whether management implements this directive. On the other hand, the focus group discussion Inspection directorate experts replied that MoF will revise soon all former finance directives, internal control standards also revised.

Absence of such standards, affects internal audit activity on the adequacy of controls in achieving institutions mission. Therefore, MoF has to revise the standards in short period of time and deliver training for concerned bodies.

Table 4-7: Clearly stated & documented components of internal control

Which components of internal control clearly stated and documented in your universities?	Number of respondents
Control environment	2
Risk assessment	3
Control activities	9
Information and communication	3
Monitoring	10
None	5

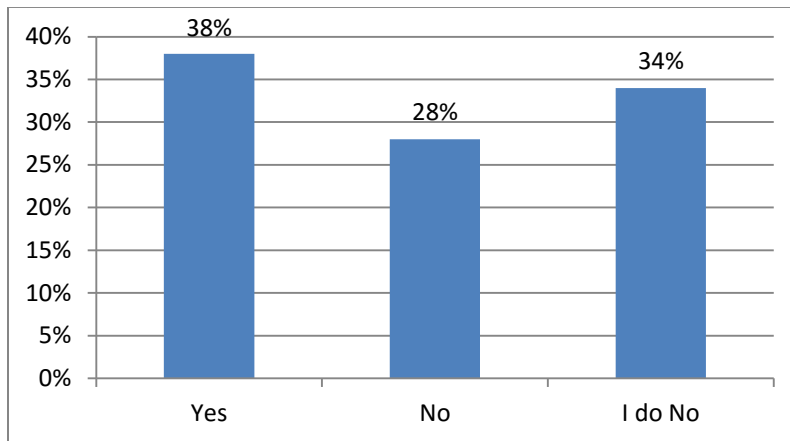
Source: Field survey

Committee of Sponsoring Organization COSO (2012) have stated that the internal controls cover all aspects of organization and integrated as whole framework.

The result of the survey Table 4-7 showed that there is no complete interrelated components of internal control within the selected institutions as stated in the MoF audit training manual. This implies that it affect the role of internal audit in assurance activity in control process of the organization. This requires the assistance of the internal audit to maintain and document the integrated internal control components within their institutions.

Figure 4-6: Evaluation of effectiveness and efficiency of internal control

Did internal audit evaluate effectiveness and efficiency of internal control



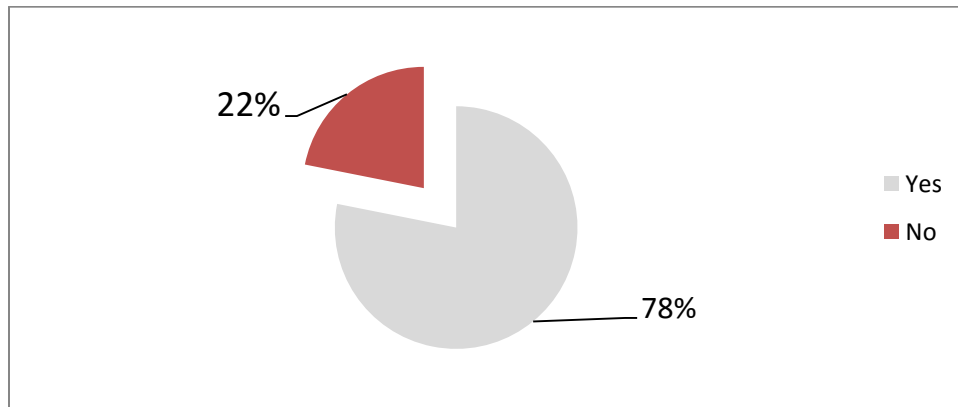
Source: Field Survey IA data/

Internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency IIA (2016) Figure 6 described that 38% of the internal audits and 45% finance heads stated that internal auditors evaluate the efficiency and effectiveness of internal controls of their institutions.

On the other hand inspection directorate discussion team disprove the internal audits response the reasons given that the internal audits did not make such type evaluation and annual audit plan did not support their response. This indicates that the internal auditors' role in the control process of the selected institutions is unsatisfactory.

Figure 4-7: Risk based audit approach in assurance and consulting activities

Does the internal audit engage a risk based audit approach in its assurance and consulting activities?



Source: Field survey

Figure 4-7: specified that 78% of internal audits stated they employed risk based approach in their audit activities. However, the inspection directorate discussion team replied that the internal audits did not engaged risk based audit approach, except few attempts in the areas of procurement, finance and government properties, a similar way, the focus group discussion and the review of internal audit plans & reports supported the result. The most reasons raised during the discussion that internal auditors have no internal audit experience and competency to assess risks; no risk assessment and risk profile existed in public institutions, IA focuses on routine activities; and delivered insufficient audit reports. Therefore, inspection directorate (MoF) upgrade the capacity of IA in order to engage risk based audit. .

Table 4-8 Internal audits Top management support

Did the top management and other departments support the internal audit department	Number of respondents	%
Very High	3	39%
High	3	17%
Medium	8	26%
Low	5	9%
Very Low	13	9%
	32	100

Source: Field survey

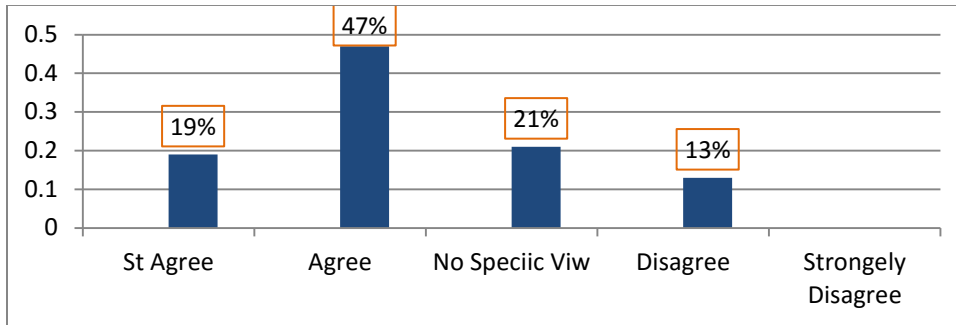
Table 4-8 showed that, Top management support for internal audits in the selected universities was very low (39%) and medium (26%) respectively. Also, the Inspection Directorate team leader's and experts confirmed that the support of top management was very low while the finance heads (50%) stated high.

This study result showed that, the internal audits of the selected institutions have lack of top management support. So, such support lacking has negative impact on the effectiveness of audit activities which hinder the effectiveness of risk management and control processes. This implies that without top management support it's difficult to expect to build strong internal audit in the government higher education institutes.

4.3.2 Compliance of Internal Audit Process with IIA Standards

Figure 4-8: Compliance of IIA standards on IA plans

Did the internal audit prepare audit plane based on IIA standards.

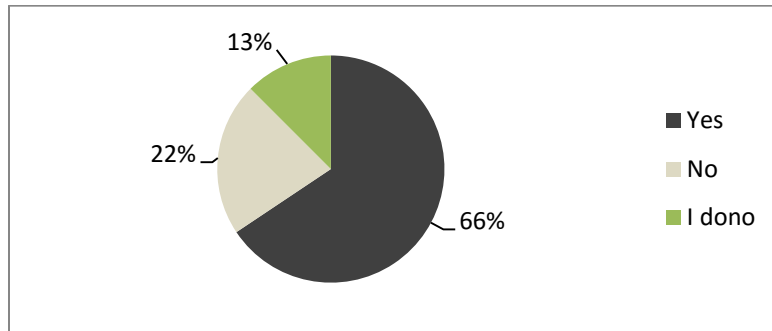


The planning standard of IIA requires that, the internal audit processes should be based on the assessment and measurement of institutional risks. Internal audit expected to plan its assurance and consulting activities according to the Institute of IIA (2016). In Figure 4-8, 66% of internal audits prepared strategic plan and annual plan in line with the institutions strategic plan based on IIA standards. Likewise, 55% of finance Directors agreed this view with internal audits. On the other hand, the majority of inspection directorate team leaders and expertise sated that internal audits plan are not based on the requirements of IIA standards.

This implies that non-compliance of such standards in the internal audit activities would reduce the quality of the IA services to their institutions. It requires that MoF strict follow-up of modern internal audit planning procedures.

Figure 4-9: Assessment of risks for IA plans

Does the internal audit base its plan on the assessments of risks



Source: Field survey

Figure 4-9 stated that 66% of internal audits sited that IA plans based on the assessment of risks of their institutions. Also, 57% of the inspection directorate team leaders and experts stated that IA plans based on the assessment of risks but the assessments area were limited. This survey result, in general, showed that the internal audit of the selected institutions make risk assessment for their audit plans but the scope of assessments, frequently finance and property areas. This implies that modern internal auditing is not effectively implemented in these institutions.

Table 4-9: Internal auditor’s performance measurement

Do you measure the performance of Internal auditors in your institutions according to IIA standards?	Number of respondents	%
Yes	5	16
No	21	65
I don’t know	6	19
Total	32	100

Source: Field survey

The head of internal audit responsible for developing the criteria in order to perform internal as well as external assessments. The assessments will be going every three or five years as per IIA standards.

Table 4-9 described that, 16% of the internal audits stated that performance of internal auditors evaluated according to IIA standards while 65% of them responded no such evaluation performed by IA. The reasons given for this respond where they don t have any information how and when the assessments will be going and others say, it’s difficult to gate competent and ethical personnel’s in their institutions unless consecutive evaluation of quality assurance. Inspection directorate team leaders agreed with IA responses but they have an annual quality assurance program in budgetary public bodies infrequently.

The survey result showed that inconsistency in the performance measurement of internal auditors’ conducted by Inspection directorate in the selected institutions. It requires that the heads of internal audits should develop quality assurance and improvement program to measure the performance of the internal auditors, MoF also prepare training for internal audit directors, and prepare quality assurance programs for government higher education institutions.

4.3.3. Fully exercising of the Internal Audit activities

Table 4-10: Internal audit independence

Did the current organizational structure sufficient enough to fully exercise its assurance and consulting activities?	Number of respondents	%
Strongly agree	3	9
Agree	17	53
No specific view	5	16
Disagree	4	13
Strongly disagree	3	9
Total	32	100

Source: Field survey

All research papers findings in IA performance before proclamation No 970/2016 stated that in sufficient independence, top managements seem to force the IA to change their audit findings, given warnings in words as well as in writing, conflict with the top management, internal auditors may lack protection to exercise their audit activities, etc. Concerning the independence of internal audit, the majority (62%) of the internal audits of the selected institutions stated that after the new financial proclamation independency problems improved in their assurance and consulting activities as shown in Table 4-10. Similarly, finance heads also shared this by the majority (57%). Inspection directorate respondents also stated that as internal audit independence increase, the effectiveness of internal auditor's increases, that's why MoF issued amended financial proclamation No 970/2016 that stated IA fully accountable to MoF. Hence inspection team leaders (67%) confirmed that the new proclamation give sufficient independence for institutions internal auditors. So, the above situations showed that internal audits' organizational structure of public institutions improve independence. This implies that it increases the effectiveness of IA role in risk management and control and governance activities.

Table 4-11: Changes on IA recommendations submitted to MoF

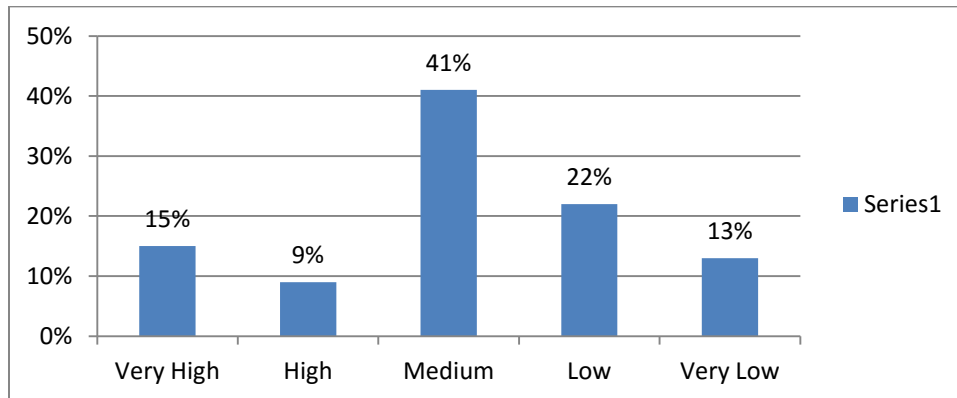
Audit findings and recommendation of assurance activity are directly submitted to MoF without make any changes by top management?	Number of respondents	%
Strongly agree	7	21
Agree	13	41
No specific view	3	9
Disagree	5	16
Strongly disagree	4	13
Total	32	100

The above Table 4-11 shows (62%) of the internal audits of the selected institutions confirmed that top managements do not propose or made any changes on the audit findings recommendations. also 71% of the inspection directorate members approve the internal audit responds, 45% of finance heads have no specific views on the top management intervention on IA reports that are submitted to MoF.

The inspection team leaders replied that, most of the internal audits did not engaged in risk areas in order to avoid conflicts with departments and top managements and their audit report don't have critical findings but still management and department heads intervene if the audit reports have a serious finding.

Figure 4-10 : MoF role to support the independence of IA

To what extent does the current role of MoF in relation to internal audit system create and support the independency of internal audit in government higher education institutions?



Source: Field survey

The amended Financial Administration Proclamations (970/2016) and new Directives No 47/48(2016) stated that MoF responsible for development and training of internal auditors and all IA staffs accountable to MoF to maintain independency in order to discharge their assurance and consulting activities independently. Inspection directorate established internal auditor's administration team; it has responsible for all budgetary public bodies including universities internal auditor's administrative issues. So management has no way to take any administration measures.

In Figure 4-10 the role of MoF medium (41%) and low (22%) stated by internal audits of the selected institutions. In addition, finance heads replied high (60%). The inspection directorate experts stated that high (53%) and very low (47%). The interview result also presented that MoF role is high in upgrading the independence of internal audits.

The result of the focus group discussion confirmed that MoF role in maintaining and supporting internal audit independence was satisfactory. This implies that independence of the internal audit of the selected institutions might be promising and it has an impact on the effectiveness of internal audit.

Table 4-12: Nonexistence of audit committee

Do you agree that the non-existence of the audit committee at university level is not affecting the independency of internal audit?	Number of respondents	%
Strongly agree	4	13
Agree	6	19
No specific view	8	25
Disagree	11	34
Strongly disagree	3	9
Total	32	100

Source: Field survey

In chapter two, described that the existence of audit committee sustain and solve the independence challenges of internal auditors in discharging their responsibilities in efficient and effective manner to add value for their institutions. The establishment of the audit committee in the government higher education institutions enhances the effectiveness of internal auditors by maintaining their independence, helps them to discharge their role in public financial management and its play intermediary roll between Board of directors, top management and internal audits.

Relating to the non-existence of the audit committee in Table 4-12 not affects internal audits performance (32%) agree, similarly, the majority of the Inspection Directorate experts shared this view with internal audit. And also the result of focus group discussion

showed that the non-existence of the audit committee affects the independence of internal audits and weakening the rectifying activities of internal as well as external audit findings.

4.3.4 Existence of Assurance and Improvement Program

Table 4-13: Existence of a quality assurance and improvement program

The head of internal audit Directorate develop and maintain internal and external quality assurance.		
Very High	3	9
High	9	28
Medium	3	9
Low	7	22
Very Low	10	31
Total	32	100

Source: Field survey

According to the IIA standards (2016), the audit director must develop quality assurance and improvement program that covers all aspects of the internal audit activity. Concerning this fact as shown in Table 4-13, 53% of internal audit confirmed that quality assurance and improvement program were not effective by audit directors. Inspection Directorate experts also shared this view. In addition, the result of the focus group discussion revealed that quality assurance and improvement program were not developed by the head of internal audits. Moreover, inspection directorate design such programs and make quality assessment in specific public budgetary bodies not yet in government higher education institutions. So, absence of such quality assurance and improvement program might make impossible to check and monitor whether the IIA standards followed or not. The IA also faced challenges to evaluate the effectiveness of governance, control and risk management processes.

Table 4-14: Types of quality control techniques employed by IA

What quality control techniques do you apply to maintain quality in audit activities?	Number of respondents	%
Management feedback	15	19
Inspection directorate feedback	26	33
Other department feedback	18	23
Direct supervision	12	16
Work paper review	7	9

Source: Field survey

In reference to Table 4-14, as responded by internal audits, the most quality control techniques employed were 33% Inspection directorate and other department feedback. The inspection directorate experts replied that, evaluation of audit report, annual plan and supervisions are one of the methods to maintain quality in the internal audit activities. 53% of them indicated that the directorate control quality in IA activities through review audit reports and annual audit plan.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

From the previous section, the result indicated:-

- Lack of well-planned and documented governance framework.
- Evaluation of strategies, goals, objectives, outcomes, and programs achievement are infrequently done.
- All departments of institutions did not provide copy of operational reports to the internal audit.
- Inconvenience working environment, negative attitude towards IA, high turnover of internal auditors, Lack of IA of respecting audit ethic's, and lack of top management support are some of the unresolved challenges of IA.

Relating to the existence of internal control and risk management process, the results found are presented as follows:

- The designed controls were incomplete and are not interrelated components. In addition to this, the internal audit did not evaluate the performance of the controls.
- There are problems in relation to framework for risk management process. Among the indicators, lack of risk framework and profiles in the public institutions. Risk is not assessed and documented, lack of responsible person or department for risk identification and managing. Furthermore, there is a risk exposure in the selected institutions in there Quality education, Café and dormitory administration, finance, procurement and property administration. This are well demonstrated with the lack of management risk assessment activities and lack of risk based audit approach that was supposed to be employed by internal auditors.

In relation to internal audit standards compliance with internal audit process, the study found that internal audit plans and performance measurement of internal auditors do not comply with IIA standards. Adding that, all internal auditors are not member of the Institutes of Internal Auditors. Likewise, internal audits lack skilled manpower; as a result they are mainly engaged on routine financial / property audit activities. With regard to exercising their independence, after amendment proclamation No. (970/2016), Directive No (47, 48/2016) issued, the internal audit independence problems have been improved.

The study found that the institutions heads of internal audits did not develop quality assurance and improvement program. Furthermore, neither internal nor external assessment was conducted on internal audit activities in universities, but the MoF, Inspection Directorate have conducted quality assurance program in different public bodies irregularly.

5.2 Conclusions

The evidence from the study indicates that:-

In the government higher education institutes, Nonexistence of well-planned and documented governance, all institute departments did not provide copy of operational reports to the internal audit except finance department, Inconvenience working environment, internal audits do not evaluate the efficiency and effectiveness of controls. Additionally, management do not identify, measure, and analyse institutional risks, that is why no risk based audit approach is employed by internal audit.

According to *Kaplan (2012)* “*The risk committee will advise the board on risk management, and assess risk management procedures for the identification, measurement and control of key risk exposures in accordance with the changes in the operating environment*”.

Moreover, the existence of challenges like inconvenience working environment, lack of capacity, high turnover of internal auditors, lack of auditors ethic’s, and lack of top management support are observed. Therefore the internal audit unable to exercise their

role of consulting and assurance service on governance, control, and risk management processes. This might create favourable environment for unethical utilization of public budget.

The selected institutions internal audit mainly focuses on financial and property audit and the audit process were not complying with IIA standards. In addition, absence of skilled manpower, limitation of IIA participation, and auditor's capacity are factors that disadvantaged the internal audits to effectively use the IIA standards to evaluate effectiveness of governance, control, and risk management.

Moreover, MoF took different measures to maintain the independence of internal audit to make internal audit accountable to Ministry of Finance as a result the role of MoF in supporting independence of internal audit is improving from time to time. Even though, in some institutions IA has lack of independence and has not established audit committee.

The IIA standard number 1300 stated "quality assurance and improvement program should developed by head of internal audit" as per this study the heads of internal audits did not practice according to the above mentioned standards. This shows that the heads of internal audit do not develop quality assurance and improvement program for their audit activities. it implies that there is no systematic quality control in the internal audit activities that may deliver negative impact on the effectiveness of internal audit.

5.3 Recommendations

The following recommendations are proposed for the challenges of internal auditors in government higher education institutions.

In the selected government higher education institutions, there was no well-designed and documented governance framework. Therefore, MoF/Ministry of science and higher education as well as the top management of universities shall give attention to design governance system, document and implement handy governance framework to improve the role of internal auditors in the governance process. In addition, to increase the role of IA all the departments submit their performance reports continuously, it helps to the audit to evaluate performance of the institution, To maximize efficient utilization of public budget and to prevent unethical activities throughout the institutions and enhance the role

of internal audit, the universities should maintain and document interconnected internal controls. The internal audit has evaluate the control process and give assurance on the effectiveness of the control system. MoF also deliver continuous training to the institutions appropriate staff.

The institutions have week in risk identification procedures; as a result the internal audit's role less satisfactory in applying risk based audit approach. To enhance the role of internal audit in the risk management process, the study recommends that the government higher education management as well as MoF should design risk management framework and risk profile. In addition, it needs to apply IIA standards on internal audit process.

Furthermore, there is a demand expected from MoF and Ministry of science and higher education to take priority action to build the capacity of management how institutional risks identified, measured, and risk controlling strategies.

The study recommends that internal audits annual plan will starts by evaluating risks that already identified by management, and assessing the operational risks, measuring the performance of internal audit activities as per the IIA standards. MoF as well as the institutions must allocate appropriate budget for continuous training for internal auditors. In addition Inspection Directorate prepare on job training.

To timely rectifying internal as well as external audit findings, it is recommended that MoF should establish audit committee in all education institutions. It is also recommended that MoF has to create independent body or upgrade Inspection Directorate as a State Minster or other better level in order to gate certified professionals and to enforce the auditee to take corrective action.

Furthermore, it is recommended that needs some amendments on the existing Financial Administration Proclamation no (648/2009) and MoE proclamations No (650/2009) which are related to internal audit, board authority and responsibility to make them more transparent and clarify the accountability of all audit customers.

According to IIA standards *1230 – Continuing Professional Development Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. (IIA 2016).* Quality in internal audit activity

increases the reliability on the works of internal auditors. But the existing practice of internal audits of the selected institutions did not strictly follow these standards. Therefore, it is recommended that the heads of internal audit of the institution should develop quality assurance and improvement program to control quality in audit activities.

MoF needs to prepare advanced audit training material for upgrade senior auditors capacity, and make external assessment as per IIA standards. Finally, effective and strong management support is required to create professional and ethical internal audit and qualified internal audit should play effective role in governance, control and risk management.

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Annex – I

Questioners

Questionnaire for Finance Heads/Internal audit Head

**ADDIS ABABA UNIVERSITY COLLEGE
COLLEGE OF BUSINESS AND ECONOMICS**

Department of Accounting and Auditing

Dear respondents:

The main purpose of this questionnaire is to collect necessary data for the study on the Challenges and prospects of internal audit practices in selected government universities. The information collected through the questionnaire is kept confidential and only used for academic purposes. To this end, the outcome of this study will highly depend upon responsible. Therefore, you are kindly requested to fill the questionnaire as per the instruction, carefully and responsibly.

Thanks!!

Sincerely Yours,

Abate kebede

Instructions:

1. You don't need to write your name;

For choice questions, please indicate your answer by putting a tick mark (“√”);

For the rest of the questions please provide your answer in writing (even in Amharic language,).

For further comments and information you may contact me at: kebede.abate [@yahoo.com](mailto:kebede.abate@yahoo.com) or mobile phone 0913- 81- 75- 25.

Annex II

Questionnaire for Internal Auditors

Part One: General Information

1. Name of your Organization _____

2. Your position in the Organization _____

3. Sex M F

4. Educational background
 High school complete Certifi 10+1 (2) Diploma First degree Second degree and above Other, please specify

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5. Your field of study _____

6. Type of certification you have

CIA (Certified Internal Audit) ACCA CGA (Certified Government Auditor) None Other, please specify

--	--	--	--	--

7. Work experience as an internal auditor

1-3 years Between 3-5 years Between 5-10 years Between 10-20 years >20 years

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8. Number of approved positions by organization structure for internal audit department.

9. Current number of internal auditors in the internal audit department. _____

10. Member of Institute of Internal Auditors (IIA). Y N

Part two: Existence of frameworks for risk management, control and governance

11. Do you agree that internal audit should play an important role in risk management, control and governance of their institutions?

Strongly agree Agree No specific view Disagree Strongly disagree

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12. Did the policies and procedures are designed and documented to monitor performance, compliance, transparency and accountability in your institutions.

Strongly agree Agree No specific view Disagree Strongly disagree

--	--	--	--	--

13. Select the major challenges observed so far in your organization to discharge your role effectively & efficiently?

- Inconvenience working environment
- Lack of transparency
- Lack of independency
- Lack of competenc
- Lack of Staffing

14 Did the internal audit department evaluate the achievement of strategies, goals, objectives, outcomes, programmes, values of your Institution?

Strongly agree Agree No specific view Disagree Strongly disagree

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If “agree or strongly agree” how?

If “disagree or strongly disagree” why?

15 How do you discharge your role to support the management responsibilities of your institution?

Oversight Insight Foresight Other, please specify

--	--	--	--

16 Does your organization set standards that define minimum level of quality acceptance for internal control?

Yes No I don't know

If your answer is no, please explain your reason

17 Which components of internal control clearly stated and documented in your organization?

- Control environment Information & Communication Monitoring
- Risk assessment control activities None

18 Did the internal audit prepare audit plane based on IIA standards?

/Strongly agree	Agree	No specific view	Disagree	Strongly disagree

19 Does management set clear objective for each internal control process in your institution?

- Yes No I don't know

If "No" please specify your reasons

20 Does the internal audit employ a risk based approach in its assurance & consulting activities?

- Yes No I don't know

If "No" please specify your reasons

21 To what extent do the top management and other departments support the internal audit department to achieve its objectives?

- | | | | | | |
|-----------|--------------------------|--------|--------------------------|----------|--------------------------|
| Very high | <input type="checkbox"/> | Medium | <input type="checkbox"/> | Very low | <input type="checkbox"/> |
| High | <input type="checkbox"/> | Low | <input type="checkbox"/> | | |

Part three: Compliance of internal audit process with internal audit standards

22 Does the internal audit prepare audit plan based on risk assessment?

- Yes No I don't know

If "Yes" how do you assess the risks?

If "No" please specify your reasons

23 Do you measure the performance of internal auditors in your institution according to IIA standards?

Yes No I don't know

If "No" please specify your reasons

Part four: Fully exercising of the internal audit activities

24 Do you agree that the current organizational structure of internal audit sufficient enough to fully exercise its assurance and consulting activities?

Strongly agree No specific view Strongly disagree
agree Disagree

If "disagree or strongly disagree" please specify your reasons

25 The internal audit findings and recommendations of assurance activity are directly submitted to MoF without make any changes by top management.

Strongly agree No specific view Strongly disagree
agree Disagree

If "disagree or strongly disagree", please specify your reasons

26 To what extent does the current role of MoF in relation to internal audit system create and support the independency of internal audit in government higher education institutions ?

Very high Medium Very low
High Low

27 Do you agree that the non-existence of the audit committee affecting the independence of internal audit.

Strongly agree No specific view Strongly disagree
Agree Disagree

28 The head of internal audit department develop and maintain a quality assurance and improvement program in your organization.

Strongly agree No specific view Strongly disagree
agree Disagree

If "Agree or strongly agree" how?

If "Disagree or strongly disagree" please specify your reasons

29 What quality control techniques do you apply to maintain quality in internal audit activities?

Management feedback	
Inspection directorate feed back	
Other department feedback	
Direct supervision	
Working paper checklists	
Other please specify	

30. Anything of relevant to add?

Annex III

Questionnaire for Finance Directors

Part One: General Information

1 Name of your Organization _____

2 Your position in the Organization _____

3 Sex M F

4 Educational background

High school complete Certificate 10+1 (2) Diploma First degree Second degree and above Other, please specify

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5 Your field of study _____

6 Type of certification you have

CIA (Certified Internal Audit) ACCA CGA (Certified Government Auditor) None Other, please specify

--	--	--	--	--

7 Work experience as an internal auditor

1-3 years Between 3-5 years Between 5-10 years Between 10-20 years >20 years

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Part two: Existence of frameworks for risk management, control and governance

8 Do you agree that internal audit should play an important role in risk management, control and governance of their institutions?

Strongly agree Agree No specific view Disagree Strongly disagree

--	--	--	--	--

9 Did the policies and procedures are designed and documented to monitor performance, compliance, transparency and accountability in your institutions.

Strongly agree Agree No specific view Disagree Strongly disagree

--	--	--	--	--

10 Select the major challenges observed so far in your organization to discharge your role effectively & efficiently?

- Inconvenience working environment Lack of competenc
- Lack of transparency Lack of Staffing
- Lack of independency

11 Did the internal audit department evaluate the achievement of strategies, goals, objectives, outcomes, programmes, values of your Institution?

Strongly agree Agree No specific view Disagree Strongly disagree

--	--	--	--	--

If “agree or strongly agree” how?

If “disagree or strongly disagree” why?

12 How do you discharge your role to support the management responsibilities of your institution?

Oversight	Insight	Foresight	Other, please specify

13 Does your organization set standards that define minimum level of quality acceptance for internal control?

- Yes No I don't know

If your answer is no, please explain your reason

14 Which components of internal control clearly stated and documented in your organization?

- Control environment Information & Communicath Monitdg
- Risk assessment control activities None

15 Does management set clear objective for each internal control process in your institution?

- Yes No I don't know

If “No” please specify your reasons

16 Does the internal audit employ a risk based approach in its assurance & consulting activities?

Yes No I don't know

If "No" please specify your reasons

17 To what extent do the top management and other departments support the internal audit department to achieve its objectives?

Very high Medium Very low
High Low

Part three: Compliance of internal audit process with internal audit standards

18 Does the internal audit prepare audit plan based on risk assessment?

Yes No I don't know

If "Yes" how do you assess the risks?

If "No" please specify your reasons

19 Do you measure the performance of internal auditors in your institution according to IIA standards?

Yes No I don't know

If "No" please specify your reasons

Part four: Fully exercising of the internal audit activities

20 Do you agree that the current organizational structure of internal audit sufficient enough to fully exercise its assurance and consulting activities?

Strongly agree No specific view Strongly disagree
agree Disagree

If "disagree or strongly disagree" please specify your reasons

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Strongly agree No specific view Strongly disagree
agree Disagree

If "disagree or strongly disagree", please specify your reasons

22 To what extent does the current role of MoF in relation to internal audit system create and support the independency of internal audit in government higher education institutions ?

Very high Medium Very low
High Low

23 Do you agree that the non-existence of the audit committee affecting the independence of internal audit.

Strongly agree No specific view Strongly disagree
Agree Disagree

24 The head of internal audit department develop and maintain a quality assurance and improvement program in your organization.

Strongly agree No specific view Strongly disagree
agree Disagree

If “Agree or strongly agree” how?

If “Disagree or strongly disagree” please specify your reasons

25. Anything of relevant to add?

Annex IV
Interview question

1. The internal audit helps its organization in evaluating and improving effectiveness of risk management, control and governance processes. Does the internal audit of Public bodies add values in such areas? If not so, what would be the possible problems that impede the internal audit to discharge its role?
2. Does the internal audit department evaluate the achievement of strategies, goals, objectives, outcomes, programmes, projects and values of public bodies?
3. Have you set the standards that define minimum level of quality acceptance for internal control in government higher education internal audit?
4. How do you control/approve whether the internal audit plans scope cover the institutions Risk areas?
5. Have you received reports from internal audit on the effectiveness and efficiency of internal control systems?
6. Does the internal audit department regularly or on the request render a consulting activity on the weakness of internal control systems?
7. What are the most focus areas of internal audit in discharging its role (Financial audit, operational audit, value for money, compliance audit, etc)?
8. Do you believe that the new proclamation 970/2010 and directives 47/48/2009 are respect the independency of internal audit?
9. Anything of relevance to add on the internal audit system?