



**THE IMPACT OF WORKING CAPITAL MANAGEMNT ON
FIRMS' PROFITABILITY:
THE CASE OF TEXTILE SHARE COMPANY**

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FIRM'S PROFITABILITY**

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Addis Ababa**

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Statement of declaration

I, Eskedar Samuel G/giorgis, have carried out independently a research work on “The impacts of working capital management on firms’ profitability in Ethiopia textile share companies” in partial fulfillment of the requirement of the M.SC program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or diploma program in this or any other institution.

Eskeda Samuel

June, 2016

Statement of certification

This is to certify that Eskedar Samuel G/giorgis has carried out his research work on the topic entitled “the impacts of working capital management of firms’ profitability of Ethiopia textile share companies”. The work is original in nature and is suitable for submission for the reward of the M.Sc. Degree in Accounting and Finance

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Advisor: Abebaw Kasse (PHD): _____

Abstract

Management of working capital refers to management of current assets and current liabilities. Firms may have an optimal level of working capital that maximizes their value. Prior evidence has determined the relationship between working capital and performance. Thus, this study examined the impact of working capital management on firms' performance by using audited financial statements of a sample of 9 textile manufacturing share companies in Ethiopia for the period of 2010 to 2014. The performance was measured in terms of profitability by return on total assets as dependent variables. The working capital was determined by the Cash conversion period, Accounts receivable period, inventory conversion period and accounts payable period are used as independent working capital variables. Moreover, the traditional measures, current ratio are used as liquidity indicators, firm size as measured by logarithm of sales, firm growth rate as measured by change in annual sales and financial leverage as control variables. The data was analyzed using E-view version 8, estimation equation by pooled panel data regression models of cross-sectional and time series data were used for analysis. Results indicate that longer accounts receivable and inventory holding periods are associated with lower profitability. The results also show that there exists significant negative relationship between cash conversion cycle and profitability measures of the sampled firms. On the other hand, findings show that a insignificant negative relationship between account receivable period, inventory conversion period and account payable period with return on asset. The results conclude that cash conversion cycle has significant negative relationship with return on asset. In general paying suppliers longer and collecting payments from customers earlier, and keeping product in stock less time, are all associated with an increase in the firms performance. Managers, therefore, can increase firms' profitability by improving the performance of management of working capital components.

Keywords: working capital, working capital management, firm size, cash conversion cycle and profitability.

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Hail Mary, mother of God, pray for us sinners now and at the hour of our death. Bless, protect and intercede for us. AMEN!

ACRONYMS

APP	=	Accounts Payable Period
ARP	=	Accounts Receivable Period
IHP	=	Inventory Holding Period
CA	=	Current Assets
CCC	=	Cash Conversion Cycle
CR	=	Current Ratio
FL	=	Financial Leverage
Ln Sales	=	Firm Size of
ROA	=	Return on Assets
WC	=	Working Capital
TNC	=	Transnational Corporation
TIDI	=	Textile Industry Development Institute

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CHAPTER ONE

INTRODUCTION

1.1. Background

Democracy requires government to be accountable in its use of public money and in providing effective, efficient, and economical service delivery. (Cecilia, 2003)

This public money is collected from people in the form of taxes, and those taxes are planned and allocated in the form of budget in Parliament, who is representative of the public. Parliament allocates that budget to different Public sectors to deliver services to the public at their best. These public sectors work as the agent of parliament because they utilize public funds on behalf of Parliament. In order to ensure that they are working economically, effectively and efficiently, the Parliament appoints auditors as watch dogs to evaluate performance of those sectors and to make them accountable for the proper appropriation of public money.

Public sector offices are part of the public body which is partly or wholly financed by government budget and concerned with providing basic government services to the whole society (Ministry of Finance and Economic Development (MoFED, 2004). The compositions of the public sectors are varied by their function and purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals

Auditing keeps the budget recipient accountable by conducting different types of audit. There other organs and techniques to evaluate monitor and assessment of public institutions but audit bears the prime responsibility in the function of keeping the auditee accountable in using the public fund. So, accountability depends on audit activities. And there exist a relationship between the effectiveness of audit with auditor's credibility and simultaneously of auditee's role (White & Hollingsworth, 1999).

Public sector audit has experienced considerable expansion throughout the world. The reason for this is closely related to changes in the structure of government and concern for more accountable and transparent governance, which has resulted in a large increase in the number of accounts and sophistication of financial reporting. The expansion has brought with it an added demand for accountability (Dowdall, 2003).

Academic authors have clearly described the development of public sector auditing in developed countries in line with the demand for more effective public accountability. Accountability is an essential process to ensure the elected politicians or public offices appointed to act responsibly and transparently (Schultz, 2004)

In order to ascertain accountability in governance the constitution of Ethiopia gives Office of the Federal Auditor General (OFAG) wide discretionary powers in interpreting and applying their mandates in deciding what to audit, how to audit, and when to audit. This unique responsibility placed on the audit offices requires them to carry out their work in accordance with the highest professional standards.

Office of the Federal Auditor General is one of the leading public sector audit organization in the country with the objective of ascertaining all money and property of the federal government are collected, preserved and used properly, in accordance with the laws and regulations of the federal government. This institution is required to provide a timely audit report with their findings after examining the financial and performance of the public sector agencies to the public(Parliament)annually.

Scanlan (1998) argued that the timely nature of reports to Parliament is the most real and concrete result of audit work as an early warning for stakeholders to put further attention and scrutiny on unnoticed issues in accountability and performance of the public sector.

Government audit organizations regularly disclose a wide variety of ways to improve government programs and operations through their recommendations. Because recommendations in audit reports highlight actions that are expected to improve entity performance when implemented and generally address risks to the successful delivery of outcomes. The appropriate and timely implementation of recommendations that have been agreed by entity management is an important part of realizing the full benefit of an audit.

However, many of the Ethiopian Universities and other institutions failed to use budget properly, non-comply with rules and regulations, prepare untimely reports and also fail to implement audit recommendations. (The OFAG Reports, 2012, 2013, 2014)

Gendron(2007) underlined the essential nature of auditor,,s expertise in issuing recommendations and constructing performance guidance measurements to improve the management of government. When a recommendation is made to an agency, its management is basically

responsible for implementing it. But auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented.

The improvement in public sector accountability can be achieved through audit results and recommendations. This means that public sector audits can be effective if auditees put into action audit recommendations for better government performance and resource management, which will improve economy, efficiency and effectiveness. (Wilkins, 1995)

The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness (GAO, 1991). Therefore, audit findings and recommendations would not serve much purpose unless management is committed to implement them.

This study expands currently available literature and produce useful findings to help stakeholders of financial reporting and auditing in the country in developing and leading relevant policies to make proper decision for effective use of public resources.

1.2. Overview of Ethiopian Higher Educational Institutions

Higher Education Proclamation No. 650/2009 of FDRE described higher education institution as a public or private institution providing education in the arts and sciences offered to undergraduates and graduate students who attend degree programs through any of the delivery modes. Public higher educational institutions are those institutions whose budget is allocated by the Federal or State Government. The major objectives of the higher institutions are to: prepare knowledgeable, skilled, and attitudinally mature graduates in numbers with demand-based proportional balance of fields and disciplines so that the country shall become internationally competitive; promote research and technology transfer consistent with the country's priority needs to alleviate poverty. In recent years, the government expanding the public Universities intensively to attain afro mentioned objectives. To achieve this objective the government needs to assure that the resources allocated for this purpose is properly utilized for appropriate program.

1.3. Statement of the Problem

Auditing is a cornerstone of good public sector governance. The public sector auditor's play an important role in providing audit report that confirms the governance responsibilities of oversight, insight, and foresight and suggesting ways in which government organizations can operate better. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Although studies show improvement in the quality of government audits (Lowensohn & Reck, 2004), there remain concerns about audit processes and their impact on public managers' implementation of corrective actions to address the issues identified.

In the same fashion, in developing country like Ethiopia, even though the quality of government audit shows improvement getting action on audit recommendation has been a persistent problem one that, over the years, has limited the effectiveness of audit report.

The researcher with 10 years of work experience has observed that persistent adverse and disclaimer audit opinion has given year to year for a single auditee and also cyclic audit findings have been observed in many of the public sectors particularly in the Ethiopian Governmental Higher Educational Institute. For instance the OFAG report revealed that 17 audited public Universities and other government institutions were provided a qualified (an adverse or Disclaimer) audit opinion in 2013 and 2014 Ethiopian budget year consecutively, 12(70%) of them were public universities and 9(53%) of these public universities had provided similar audit opinion in the 2012 budget year.(OFAG Audit report, 2012,2013,2014 G.C).

This implies that, despite the fact that there are national laws, regulations, policies and standards set by law makers, the challenges of implementing audit recommendations are still widespread setbacks. As a result inefficiency and waste of public resources are increasingly high.

As the best of the researcher's knowledge, no prior research is conducted to explore factors which hinder implementation of audit recommendation in the public sector in Ethiopia. This study seeks to fill this gap by looking at its practical factors in the Ethiopian Governmental Higher Educational Institute.

1.4. Research Questions

The researcher formulates the following research questions:

1. What are the key areas that repetitive audit findings take place?
2. Why audit findings repetitively occurred in the university?
3. What are the key factors that hinder implementation of audit recommendation?

1.5. Objective of the Study

1.5.1 General Objective

The overall objective of this study is to assess factors affect implementation of audit recommendations in the case of the Ethiopian Governmental Higher Educational Institute.

1.5.2. Specific Objectives

The specific objectives of the study are

1. To identify the key areas that audit findings are repetitively occurred.
2. To investigate the main reasons why audit findings were repetitively occurred
3. To identify the key challenging factors that hinder implementation of audit recommendation.

1.6. Significance of the Study

This project paper will be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the factors influencing acting on audit report in Ethiopian Government Higher Education and other Public sectors.

It will also enable the governing body, specifically, the management, higher responsible body, old and new comer managements of higher Education's to be aware of how the key factors influence future policies on oversight mechanisms and form a basis of improving efficiency in the management of public finances.

Further, the results of this study will be used by stakeholders to design and implement a more transparent, accountable and efficient monitoring and evaluation framework in the public sector.

1.7. Scope of the study

This research study is geographically extended to different parts of the country and focuses on implementation of regulatory audit recommendations (not performance and other type of audits) given by Office of the Federal Auditor General in the case of sampled Governmental universities.

1.8. Limitation of the study

The reluctance of some respondents to provide the required data was some of the limitations of the findings. Shortage of time and absence of research fund were also other limiting factors of the findings of the study. However, necessary precautions were made so that these limitations was not affect the findings of the study through taking appropriate sample size and triangulating different data collection methods.

1.9. Organization of the study

The research is structured in three chapters. The first chapter consists of introduction, statement of the problem being focused, and objectives of the study, research questions, and significance of the study, scope and limitation of the study. The second chapter is concerned with the review of different researches and related literature dealing with the public sector audit and factors affecting implementation of audit recommendation and Third chapter is presented research methodology used in conducting the study, research design, population and sampling technique, data collection, survey instruments, and methods of data analysis and validity of the study. The fourth chapter presents and analyzes the results. Finally, the chapter five presents the summary, conclusions and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the theoretical aspects related to the study. Thorough content analysis gives researcher guideline to fix the theory and analytical framework keeping relevance with the research questions intended in the study. This chapter focuses on concepts of accountability and audit, public sector auditing, types of audit, theoretical literature review and finally a conceptual framework.

When the organization has not achieved its financial or operational performance goals, or when problems are detected in operations or the use of funds, a good governance system will identify the root cause of the problems, determine the corrective actions needed, and follow up to determine whether those actions were implemented effectively. Auditors' findings and recommendations represent critical input to good governance that can lead organizations to remedy identified weaknesses and deficiencies promptly and appropriately. (IIA, 2012)

In terms of democratic accountability, an audit provides professionally structured and independent information to a variety of actors in the accountability process (White & Hollingsworth, 1999).

Since public sector entities act as "agents" to use resources and authority to accomplish established goals, they must account for how they use the resources and the results they have accomplished. Accordingly, good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor. Accountability also implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended. (IIA, 2012)

2.1.1. Accountability and audit

Public sector audit has experienced considerable expansion throughout the world. The reason for this is closely related to changes in the structure of government and concern for more accountable and transparent governance, which has resulted in a large increase in the number of

accounts and sophistication of financial reporting. The expansion has brought with it an added demand for accountability (Dowdall, 2003).

The public sector plays an important role in economic development. It provides services which the private sector may not be willing or able to provide. To run the affairs of public sector, government is entrusted with public funds and other resources. It is therefore expected to adhere to the highest ethical standards, transparency and accountability to ensure optimum utilization of such resources which could be achieved through a combination of individual professionalism, personal standards and a rigorous control framework (Chan, 1988)

Auditing keeps the budget recipient accountable by conducting different types of audit. There are other organs and techniques to evaluate monitor and assessment of public institutions but audit bears the prime responsibility in the function of keeping the auditee accountable in using the public fund. So, accountability depends on audit activities. And there exist a relationship between the effectiveness of audit with auditor's credibility and simultaneously of auditee's role (White & Hollingsworth, 1999).

Academic authors have clearly described the development of public sector auditing in developed countries in line with the demand for more effective public accountability. Accountability is an essential process to ensure the elected politicians or public offices appointed to act responsibly and transparently (Schultz, 2004)

2.1.2. Public sector auditing

Public sector auditing is conducted in the environment where governments and other public sector entities are the parties responsible for resources raised from taxpayers and other sources for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and performance, and their use of resources to those that provide them with the resources and those that depend on them to use the resources to deliver necessary services, including citizens. Public sector auditing helps to create the conditions and to reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with laws and regulations.

Public sector auditing contributes to improved public sector administration by:

- Enhancing accountability, transparency and encouraging continuous improvement in the appropriate use of public funds and assets and, of public administration performance.
- Facilitating the functions of those bodies within the constitutional arrangement which exercise general oversight and corrective functions over those responsible for the management of publicly funded activities.
- Providing intended users with independent, objective and reliable information, conclusions or opinions based on sufficient appropriate evidence relating to public entities or publicly funded entities.
- Creating incentives for change by providing new knowledge, comprehensive analysis and well founded recommendations for improvement. (IIA,2012)

The government, shareholders and other users of accounting information need to know whether funds are used properly in compliance with the government rules and policies, also whether the organization are achieving the purpose for which it was set up. Nwaorgu (2003) and Johnson (2004) posit that auditors in the public sector ensures that funds have been expended in accordance with the terms by which such monies were appropriated and that accounts have been properly prepared

2.1.3. Types of Public sector audit

The International Standard on Auditing 200 states that the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework (Hayes, 1999).

Audits are typically classified into three types: Audits of financial statements, operational audits and compliance audits. Audits of financial statements examines financial statements to determine if they give a true and fair view or fairly present the financial statements in conformity with specified criteria (Adeniji, 2004; Okezie, 2008; Appah, 2011).

Operational audit is a study of a specific unit of an organization for the purpose of measuring its performance. According to Hayes et al. (1999), operational audits review all or part of the organization's operating procedures to evaluate effectiveness and efficiency of the operation. Effectiveness is a measure of the extent to which an organization achieves its goals and objectives. Efficiency shows how well an organization uses its resources (Oshisami, 2004).

Compliance audit is review of an organization's procedures to determine whether the organization is following specific procedures, rules or regulations set out by some higher authority. According to Oshisami (2004), compliance audit provides examination of financial statements, accounts and reports and their compliance with applicable regulations to certify that: there are effective controls over revenue, expenditure, assets and liabilities; there are proper accounting records of the resources, operations and encumbrances; the accounting and financial reports are sufficiently accurate, reliable, timely and useful and fairly represents the transactions, events and conditions reported upon and applicable laws and regulations have been complied with. However, the most common types of SAI audits are regularity and performance audits.

Regularity audit embraces:

- Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- Reporting of any other matters arising from or relating to the audit that the SAI considers necessary to disclose.

Frequently, as part of the regularity audits, SAIs expresses opinions as to whether the financial statements fairly present the financial position and financial results of the entity.

As independent auditors of SAIs, they are required to report their findings after examining the financial and performance of the public sector agencies to the public (Chaturverdi 1987; Guthrie and English 1997).

A timely report of external public sector auditors to members of Parliament and ministers is essential in communicating audit findings. Scanlan (1998) argued that the timely nature of reports to Parliament is the most real and concrete result of audit work as an early warning for stakeholders to put further attention and scrutiny on unnoticed issues in accountability and performance of the public sector.

2.1.4. Audit opinion

Various audit opinions are practiced in public sector auditing these are:

An unqualified opinion: is given when the auditor is satisfied in all material respects that:

- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- (b) The statements comply with statutory requirements and relevant regulations;
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

Qualified Opinion: Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

Adverse Opinion: Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

Disclaimer of Opinion: Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a

disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

2.2. Theoretical Literature Review

To sketch the theoretical framework the researcher considered the following elements as priority concepts as they relate to the overall problems under the study.

2.2.1 Agency theory

Agency theory postulates that an organization consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen & Meckling, 1976). The theory is based on the premise that agents have more information than principals and that this information asymmetry adversely results in moral hazard, and affects the principals' ability to monitor effectively whether their interests are being properly served by agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. Managers of public resources are agents who are charged with using and controlling the public resources, and are accountable to their principals for the resources provided to carry out government programs and services. These principals are both the citizens and other government officials, such as elected officials.

2.2.2. Public administration theory

Public administration theory indicates that indirect benefits and lack of control over investments compel taxpayers to demand more accountability for their funding, and also directs auditors to require additional assurance regarding efficiency of operations, regulatory and procedural compliance, integrity of financial records, safe-guarding of assets and achievement of programmatic objectives. From agency-theory perspective, the citizens of a governmental jurisdiction usually find it more difficult than shareholders of private organizations to monitor and control the activities of public managers effectively because citizens are less cohesive and heterogeneous owners of resources than shareholders. Therefore, to counter the possibility of loss of confidence that stems from a loose ownership- control structure in the public management process, public managers may be more inclined to employ internal monitoring mechanism such

as internal auditing and to use the services of an audit committee or some other monitoring body (Adams, 1994)

2.2.3. Canons of Public Expenditure

According to Dalton, the main principles or canons of public expenditure are as first, the principle of maximum social advantage: The government expenditure should be incurred in such a way that it should give benefit to the community as a whole. Secondly, the principle of economy: which requires that government should spend money in such a manner that all wasteful expenditure is avoided. Thirdly, the principle of sanction: according to the principle, all public expenditure should be incurred by getting prior sanction from the competent authority. Fourth, the principle of balanced budgets which states that every government must try to keep its budgets well balanced. There should be neither ever recurring surpluses nor deficits in the budgets. Fifth, the principle of elasticity which requires that public expenditure should not in any way be rigidly fixed for all times. It should be rather fairly elastic and finally the “No unhealthy effect on Production and Distribution” principle: The public expenditure should be arranged in such a way that it should not have adverse effect on production or distribution of wealth (Dalton, 1922).

2.2.4. Theory of Inspired Confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes et al., 1999). Limperg’s theory addresses both the demand for and the supply of audit services. According to Limperg, the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side), Limperg adopts a normative approach. The auditor’s job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

2.2.5 Stewardship (Monitoring) theory

Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance is to counsel and advice rather than to monitor.

Stewardship theory is based on agency theory ownership and control motivates the owners to incur costs to monitor the activity of the managers. One of these controls is the hiring of an external auditor who certifies the accuracy of the financial information provided by the managers.

Therefore, the stewardship can contribute to control the conflict of interests among firm managers, shareholders and other external claim holders by enhancing the credibility of publicly reported financial information to a steward chief executive officers rather than a controlling mechanism it also considers that management is less likely to practice earnings management.

2.3. Empirical Literature Review

General Accounting Office study (GAO 1986), which revealed that 34 percent of the 120 audits examined were substandard. This finding raised concern as to the quality of government audits and the extent of management's implementation of audit recommendations. Although subsequent studies show improvement in the quality of government audits (Lowensohn & Reck, 2004; General Accounting Office, 1989), there remain concerns about audit processes and their impact on public managers' implementation of corrective actions to address the issues identified.

Behn, Carcello, Hermanson and Hermanson (1997) examined the effects of audit quality factors on auditee (audit client) satisfaction in the private sector. More recently, Samelson, Lowensohn and Johnson (2006) extended these studies to the external governmental audit by examining audit attributes that influence government finance officers' perceived audit quality and auditee satisfaction.

Other Some scholars have argued that auditing has contributed to promoting the implementation of accountability in the public sector. Brooks and Parisher (1995) claimed that public sector auditing is the key element in examining and evaluating government accountability in using public money and providing services to the public. Predengast (2003) believed that the ability of

bureaucracies to allocate public goods leads to a high level of inefficiency in the public sector. Public sector auditing can be an essential element in ensuring efficiency, effectiveness and accountability of the government to the public (Barrett, 2000).

Research works in Bangladesh revealed that audit category; traits of the auditee and auditor, planning on how much audit was following recommendations were key indicators of audit effectiveness.

Hussain (2011), stated that like elsewhere in the world the sovereign Parliament of Bangladesh has the ultimate responsibility to ensure financial accountability and transparency in the management of public resources. He added that "...the concept of audit occupies a central part in public financial administration. Audit is, generally, conducted for two purposes. The one is to identify violations of accepted standards of ethics, and deviations from the principles of legality, efficiency, effectiveness and economy in resource management. The other is to make public managers responsible for their conduct and for their use of public funds and to motivate them to take corrective measures to prevent violations from recurring..."

Schneider and Wilners (1990), in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager's perception of internal and external auditing on the potential of financial irregularities.

Stephen (2012) a survey of local government audit executives was conducted to determine various aspects of the local government internal audit process and their relationships with audit client management's adoption of audit recommendations. Results show that client management's adoption of audit recommendation is a function of auditor professional designation, due diligence, client relations, documentation and tracking of audit recommendations, as well as of follow-up audits to verify implementation of agreed-upon action plans.

Septiana (2011) in his research titled effectiveness of public sector audit report revealed that auditees found difficulties in following up audit reports and recommendations.

Moreover, lack of responsiveness of auditees to make changes for improvement based on auditors' recommendations taken as a factor that affect acting on audit information. Auditees found that auditors could not provide realistic recommendations that could be implemented in

the short or medium term by auditees. As a result, BPK recommendations do not change from year to year and also the research revealed that although the mandate for public sector agencies to follow up BPK audit reports has been provided in audit regulations, the evidence shows that the rate of follow up of BPK findings and reports is still very low. This study revealed that Members of Parliament found it difficult to encourage public sector agencies to follow up on BPK reports. Public sector agencies were aware of the importance of following up on BPK audit findings, but auditees, in the short term, found it hard to follow up and to meet all the data, information and recommendations as requested by BPK auditors.

According to Power (1997) audits are demanded within the context of relations involving accountability between two parties and the operational difficulties of one party monitoring the activities of another and also he believes that the core of the modern external audit is an independent examination of, and the expression of an opinion on the financial statements of an enterprise by a qualified auditor

2.3.1 Realistic and constructive recommendation

The new auditing state finances standard (BPK RI, 2007) requires auditors to convey recommendations on corrective measures to improve performance in problem areas of public sector agencies (Paragraph 24). Based on this standard, audit recommendations are to provide potential corrections, to improve compliance with laws and regulations, and to encourage follow up of previous recommendations that were not done. In providing constructive and realistic recommendations, the BPK standard provides guidelines that are: (i) aimed at problem solving, (ii) oriented to real and specific actions, (iii) aimed at authorities to take action, (iv) Focused on concrete solutions, and (v) aimed at reasonable expenses/costs. In the same fashion, the Ethiopian government auditing standard (EGAS) Reporting standard 4.3.14 stated that recommendations should be constructive and directed at resolving the cause of identified problems. They should also be specific, action oriented, practical and feasible, addressed to parties that have the authority to act.

Auditors have to provide realistic and practicable audit recommendations for auditees to implement in order to improve their performance and public administration in general (Taylor 1996). Gendron (2007) underlined the essential nature of auditor's expertise in issuing

recommendations and constructing performance guidance measurements to improve the management of government.

Adams(1994) states that coupled with education and professional training enables the audit team to better understand the internal control structure, and perform quality fieldwork by designing and performing appropriate audit test, and by providing value-added recommendations, thereby facilitating acceptance and implementation of those recommendations. This will then help the agent/public manager demonstrate to the principal that the public resources are being judiciously utilized. One of the measurements for the quality of effective information in audit reports is the provision of realistic audit recommendations.

Wilkins (1995) pointed out that the improvement in public sector accountability can be achieved through audit results and recommendations. This means that public sector audits can be effective if auditees put into action audit recommendations for better government performance and resource management, which will improve economy, efficiency and effectiveness. Whether audit results are achieved depends on the quality of the recommendation. A recommendation that is not convincing won't be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.

2.3.2. Commitment to Results

In fact, in a governmental setting, while perceptions of audit quality and auditee satisfaction are important, the translation of satisfaction and perceptions into auditee implementation of audit recommendations to improve internal controls is more significant given the need for public managers to be accountable to stakeholders and the general public. (Stephen, 2012)

VanGansberghe (2005) in his study stated that implementation of audit recommendations is highly relevant to audit results.

Sawyer (1995) stated that management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness.

The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit

effectiveness (GAO, 1991). Therefore, Audit findings and recommendations would not serve much purpose unless management is committed to implement them.

2.3.3 Follow-up and Monitoring system

The quality of information is also indicated by the follow up to the audit report findings and recommendations. The advantages of auditing can only be realized when findings and recommendations have been followed up. Following up of auditing can be in the form of discussion in Parliament and corrective action in government-audited entities (Marsidi 2002; Thai 1992). Without any follow up from Parliament, the Executive, or investigators, audit reports are useless and public accountability cannot be enforced. This means that an audit office provides audit report information to raise political interest among members of Parliament to follow up by presenting political oversight and control that offers further action. Moreover, Chowd (2005) suggested that effective monitoring and controlling is needed for the implementation of the audit follow-up recommendations.

According to Spencer (2003) to ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time.

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. According to Coffin (2003) monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives.

Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations (Henle, 2005). It seeks to ensure that systems are performing as intended. However, this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two (COSO, 2004). Monitoring is done continuously by external auditors, internal auditors and management; to review and evaluate the effectiveness of internal control, if corrective actions are required.

Triadji (2004) described a situation where there was an absence of internal control to prevent corrupt government management, and a lack of follow-up of an external audit report that caused

difficulty in addressing accountability, and achieving transparency and good governance.

Stephan (2012) from a practical perspective, states that client management adoption of audit recommendations as a result of auditors' tracking and monitoring those recommendations will help to enhance public accountability in the public management process. Therefore, local government's internal auditors should improve the documentation, monitoring and follow-up of client resolution of audit findings and recommendations in order to strengthen public accountability.

Walker (1996) underlined that: Though the management should take responsibility for the risks of not implementing the audit recommendations, it should be the responsibilities of internal audit to follow-up the results. Keating(1995) claims that the internal audit work is only beginning when audit reports are issued. This emphasizes that follow-up is critical to bring about audit outcomes. If follow-up is weak or absent, the impetus gained by audit recommendations will be lost and the credibility of internal audit will suffer. If follow-up is absent, highlighting the status of unresolved past audit issues could minimize its effect.

Summary of literature review

From the literature review, Public sector auditing contributes to improved public sector administration by enhancing accountability, transparency and encouraging continuous improvement in the appropriate use of public funds and assets and, of public administration performance. The improvement in public sector accountability can be achieved through audit results and recommendations.

The appropriate and timely implementation of recommendations that have been agreed by entity management is an important part of realizing the full benefit of an audit. However, several researchers seem to agree that there are various challenging factors that affect the adoption of audit recommendation. Among them quality of audit recommendation, management commitment, monitoring and follow up of audit recommendations, auditor professional designation, due diligence, client relations, documentation and tracking of audit recommendations are the main factors. Since there are no sufficient studies conducted regarding affecting factor issues in the Ethiopia context, extensive studies for continuous improvements in implementation of audit recommendation are needed in public organization to achieve the country planned objective.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The preceding chapter presented reviews of literature on auditing and factors that affect implementing of audit recommendation with respect to the theoretical perspectives and prior empirical studies. The literature review confirms that there was no study conducted on Ethiopian public universities“ factors affecting audit recommendation implementation”. The purpose of this chapter is to present the main principles of research methodology and the adopted research method for this study.

3.2. Research Design

There are three types of research approaches: quantitative, qualitative and mixed approach. Quantitative method is a means for testing objective theories by examining the relationship among variables. On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. Between the two strands, mixed methods research is an approach that combines or associates both quantitative and qualitative approaches to inquire an issue (Creswell, 2009). However, the author noted that the selection of a research design involves the considerations of the world view assumptions the research brings to study, the nature of research problem, procedures of inquiry, the researcher’s experience, audiences for the study, and data collection methods, analysis and interpretation.

As tried to indicate the types of research approaches and their meaning previously, quantitative and qualitative method have distinct characters, while mixed methods shares the characters of both methods. The research design involves the interactions of philosophical worldview, strategies of inquiry, and specific methods for the quantitative, qualitative and mixed approaches (Creswell, 2009).

In general, a descriptive research design with survey method was applied in this research in attempting to describe and explain the current status, practice and problem related to adoption of audit recommendation by using questionnaires to fully describe the phenomenon.

The survey used quantitative (e.g. use forced-choice questions) measures in order to answer the research question and thus arrive at the goal of the research.

3.3 Method of Data collection

The researcher used a questionnaire as the main data collection instrument to obtain important information about the population. Since this is a descriptive research it helps to identify and describe the variability in different phenomena through attitude, opinion, and self-administered questionnaires was distributed to the selected respondents. The questionnaire contained questions which comprise of likert scale, and closed-ended questions. Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as multiple choice, most of the closed ended questions were a five scored likert scales (Kothari, 2004) to provide respondents a wider range of alternatives with end points where „5”with the statement strongly agree, and “1” indicates with the statement refer to strongly disagree. The study used questionnaires primarily due to their practicability and applicability to the research problem.

3.4. Population and Sampling Technique

According to research scholars, sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. Accordingly this study used two sampling stages. The first one is to sample out the Universities and secondly the number of respondents within the Universities. According to Ethiopian Ministry of Education (MOE) currently there are 33 public Universities. From the existing 33 government Universities in Ethiopia six Universities were selected which consists of both elder and new universities that have been audited by OFAG for their convenience to collect data. The name of the Universities are; Adama Science and Technology University, Jima University, Dila University , Metu University, Asosa University and Welkite University. Two of the samples Universities have no good background on the audit opinions provided by the office.

For the purpose of questionnaire survey respondents from different departments was chosen. To cope up with the time and resource constraints the sample size is set at 60 as summarized in table 3.1 Sampling is the process by which a relatively small number of individual objects, and events is selected and analyzed in order to find out at something about relational population from the selected. According to Mugenda and Mugenda (2003), once the sample data has been analyzed,

it can be generalized to represent the whole population. These reasons are the ground to assess factors that hinder implementation of audit recommendation of these Universities.

Table 3.1 Sample size and departments of respondents

Department	Sample size
Finance, procurement and property Administration	24
Internal audit	12
Faculties Dean	12
President office	12
total	60

3.5. Survey instrument

All items in the instrument were close-ended questions. In addition, items in the survey instrument categorized in to five parts.

Part 1 of the survey instrument sought to get respondent's profile. Part 2 tried to get know how of the respondents about external audit and audit opinion. Part 3 focused on areas of repetitive audit findings take place. Part 4 dealt about implementation of audit recommendation at the university, typical questions in this part sought to get the extent of audit recommendation implemented at the university. The last part sought to get responses in the areas of factors that affect implementation of audit recommendation, all items in this part developed using five-point Likert-type scales („strongly agree“ to „strongly disagree“).The Likert-type questions helped to get respondents' perceived experiences about each challenging factors.

3.6. Data Analysis

Data obtained from the survey instrument were analyzed using quantitative data techniques. To analyze data obtained from the survey instrument, descriptive statistics were used, such as frequency and percentage. Specifically, to rank the relative severity of twenty five challenging factors of implementation of audit recommendations incorporated in the part 5 of the instrument, respondents rated scale percentage used. In order to give a clear view of the finding, tables and graphs were used. In general, the survey instrument responses keyed into Statistical Package for Social Science (SPSS) (version 20), to generate quantitative data output.

3.7. Validity of the Study

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study,

researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population.

Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. This study used multiple sources of data including document review and questionnaire that helps to cross validate the data. In addition, the study used instruments developed by Iyoha and Faboyede (2011), and Sharif (2010). Since questions are tested up on their clarity and understandability and significant conclusions are drawn using those questions, it adds both to the internal and external validity of the study. In order to keep the validity the researcher chose representative respondents which are familiar with the issue and are experts in the field, which enhance the external validity of the result.

CHAPTER FOUR
RESULTS AND ANALYSIS

3.1. Introduction

The previous chapter discussed appropriate methodologies and the adopted research method for the study along with its rationale. This chapter presents the result and analysis of the survey method.

4.2. Survey Results and Analysis

A survey has been carried out using the attached questionnaire (Annex1) with the goal of assessing various challenging factors of implementation of audit recommendation in Ethiopian public universities. This section presents the result and analyzes the data collected using self-administered questionnaire from sample of 60 employees of different departments in the university with different positions from Adama Science and Technology University, Jimma University, Dilla University, Metu University, Asosa University and Welkite University out of which 81.6 % of them have responded.

4.2.1. Respondents' Profile

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly the respondents were asked to respond to their, level of education, field of qualification and year of experience the information processed by SPSS is summarized as follows.

One of employee's competences that contribute to implementation of audit recommendation is the level of education the employees possesses. This competence is referred to as academic competence. As summarized in Table 4.1 below, all the respondents (100%) were qualified in degree and above which is favorable. No one accounted to the diploma or certificate educational level choice of item one in the survey instrument. This implies that all employees at the university are qualified for their jobs.

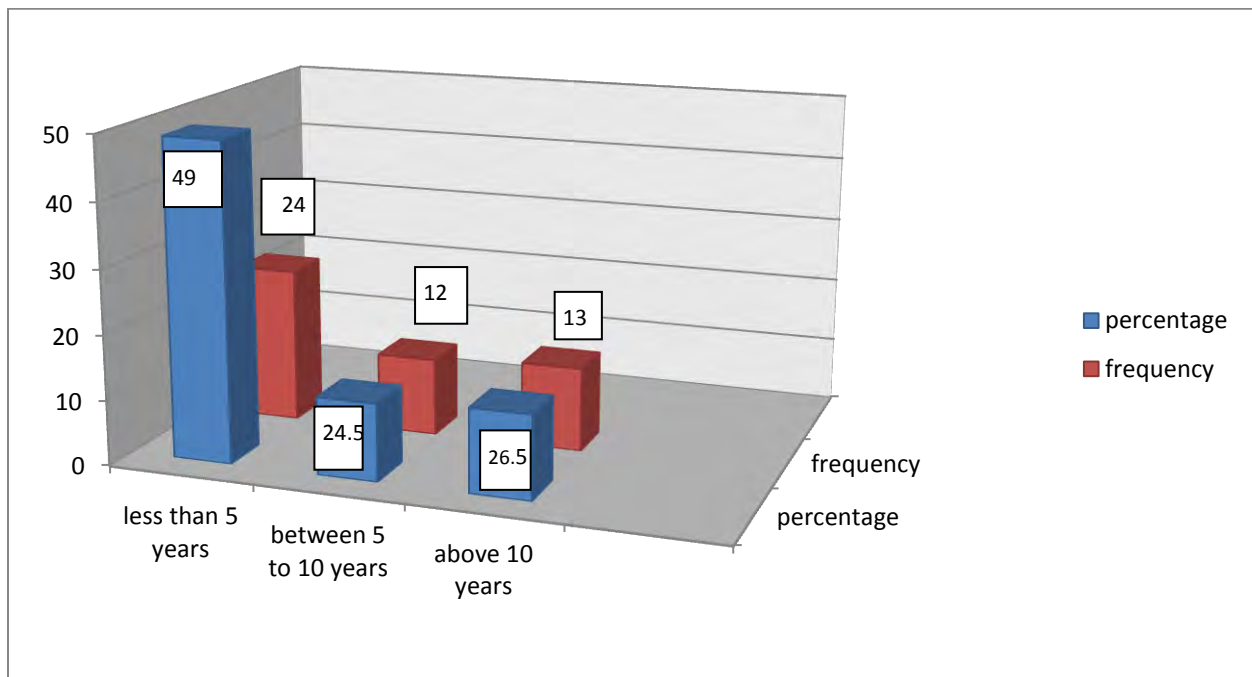
Table 4.1 Education Level of the Respondents

	Level of education	frequency	percent
valid	Diploma and certificate	0	0
	Degree and above	49	100

Experience is one of the competences to understand and implement internal control in an organization. Experience also referred to as professional competence. In the literature it is

indicated that commitment to this competence by employees is one part of effective control environment in internal control system. The more experienced employees are the more they understand about the internal control they execute. Out of the survey, 26.5% of the respondents as indicated in Figure: 4.1 were experience with years more than 10 and 24.5% of the respondents were with an experience between 5 to 10 years and the remaining 49% of the respondents were less than 5 years" experience. This indicates that the employees working in the key areas of internal control system are well experienced both to respond to the questionnaire, and to understand or implement the control system.

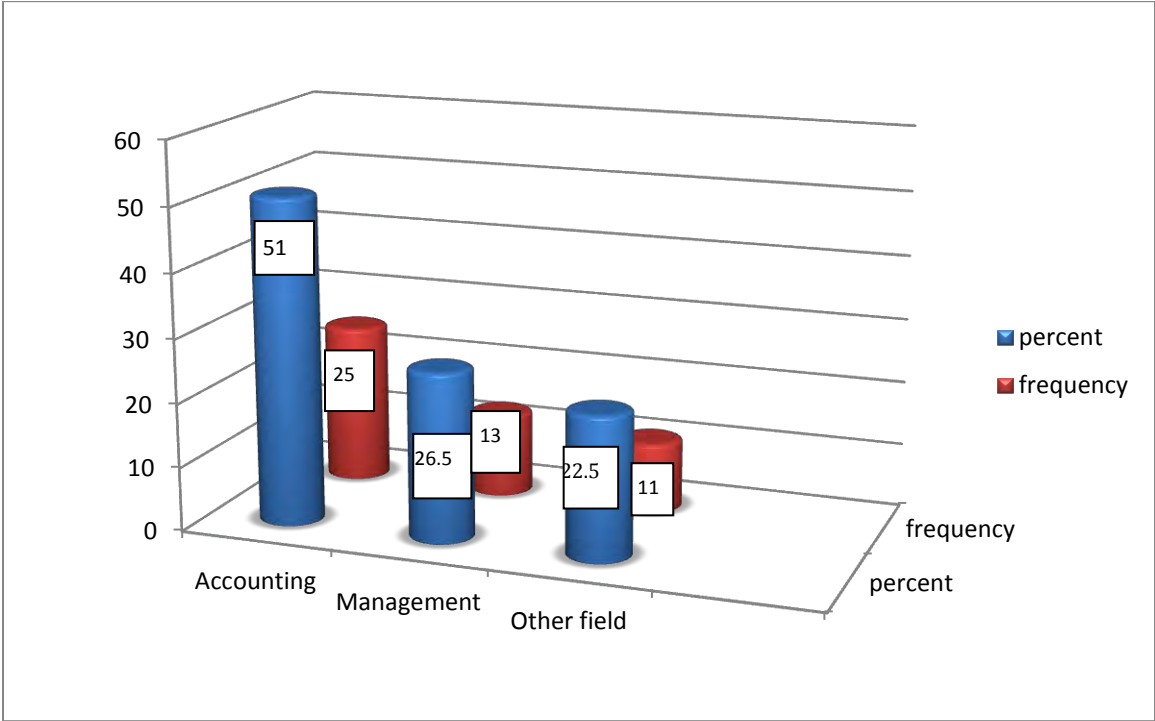
Figure 4.1: working experience



Implementation of audit recommendation is primarily the responsibility of management. The broader category of internal control is operational and accounting control. Obviously the respondents with knowledge of management and accounting understand the concept of internal control system than others. Thus the survey made to assess the areas of qualification of the respondents presented in figure 4.2 indicated that 51. % of the respondents was qualified in accounting and 26.5% were qualified in management. And only 22.5% of the respondents were from other field of study. This means most of the respondents had at least had the theoretical

education on the concept of internal control. In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand internal control system in their Universities.

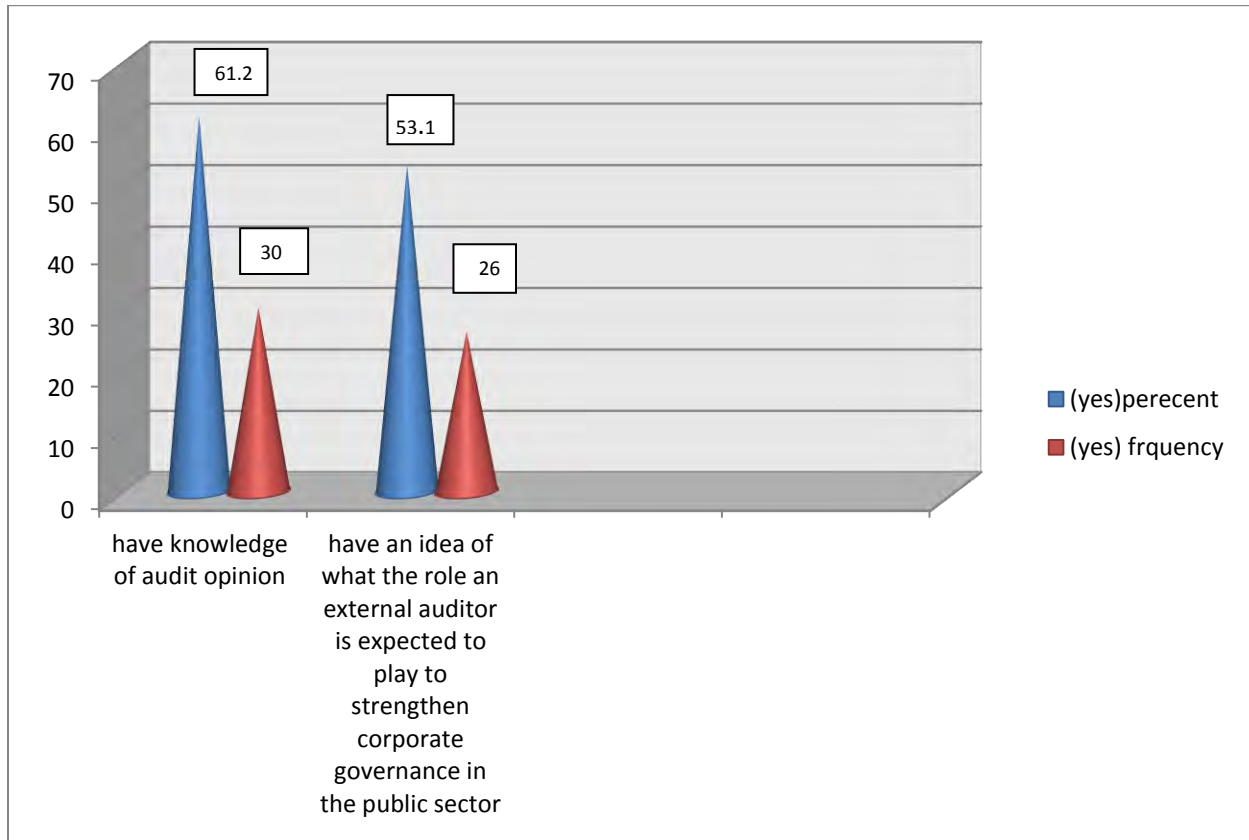
Figure 4.2: Field Of Qualification



4.2.2. External audit and audit opinion

The research sought to find out whether the respondents had any knowledge of audit opinion and an idea of what the role an external auditor is expected to play to strengthen corporate governance in the public sector. According to the findings, 61.2% of the respondents indicated that they had knowledge of audit opinion and 53.1% had an idea of what the role an external auditor is expected to play to strengthen corporate governance in the public sector., while 38.8% responded that they were not very much aware of what audit opinion is and 46.9% the respondents agreed that they had no idea about the contribution of external auditor to strengthen corporate governance. This implies that it is important to create awareness about audit opinion and external auditor contribution in strengthen corporate governance of public sector to maintain faith in the government system and promote better service to the public as illustrated in Figure 4.3 below.

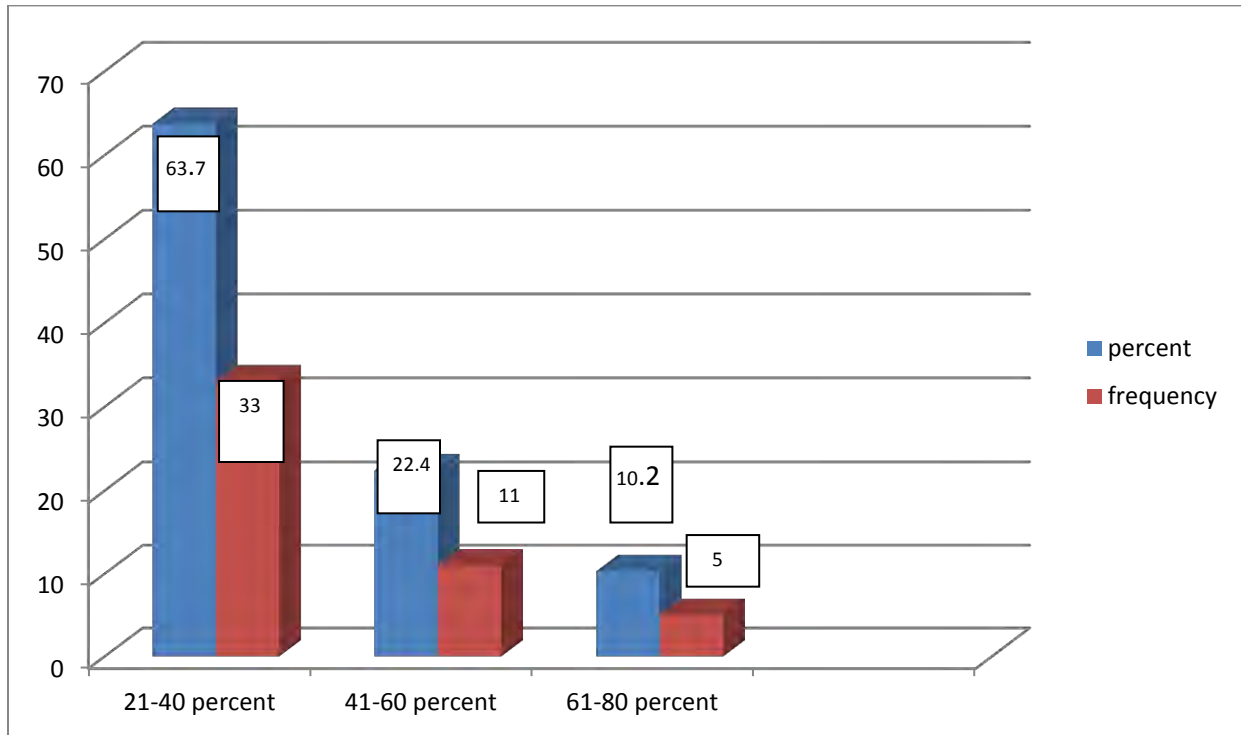
Figure: 4. 3: Ideas about External audit and audit opinion



As Figure 4.4 shows, based on respondents rated percentage of implemented audit recommendations in their respected universities, the extent of acting on audit report varied among universities. Taking all respondents (i.e., forty nine respondents) rates, the extent of implemented audit recommendation at six universities lied between 21 to 60 percent (see figure 4.4). In this case, of the forty nine respondents, 67.3 percent of respondents rated 21-40 percent and 22.4% of the respondents rated 41-60 percent extent level of implementation at universities respectively. The remaining respondents 10.3 percent rated 61-80 percent extent level of adoption of audit recommendation.

This implies that universities were not committed to implement audit recommendations to improve their operation due to various factors as illustrated in table 4.2 on page 33.

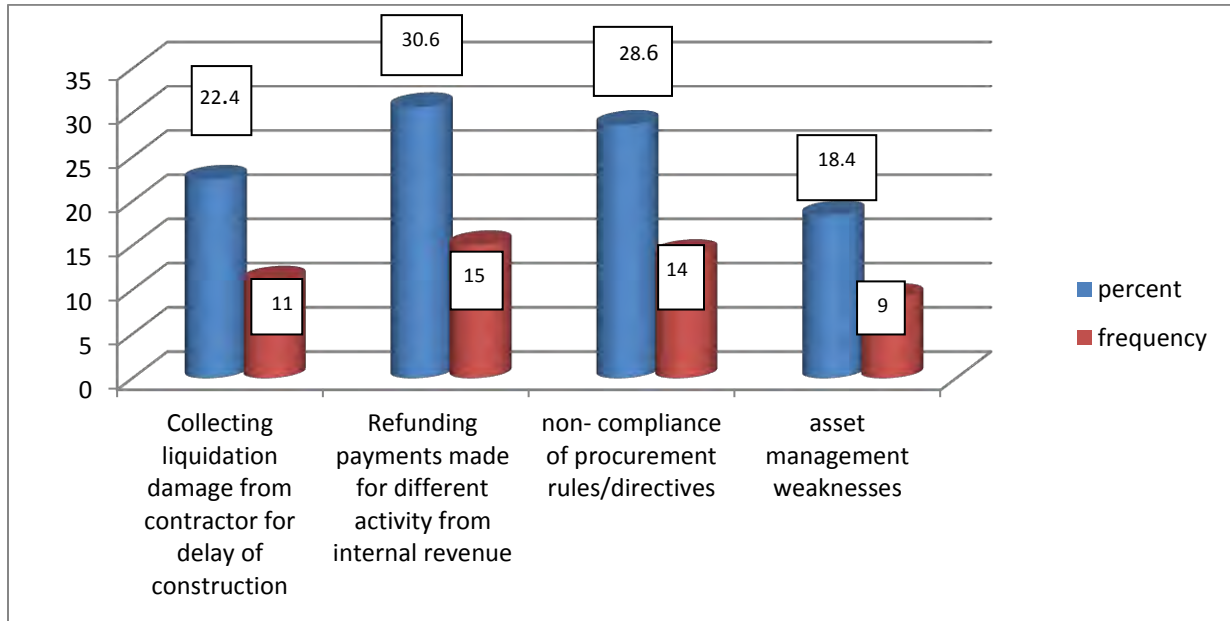
Figure 4.4 Extent of implemented audit recommendations



4.2.3. Implementation of audit recommendation in Ethiopian public universities.

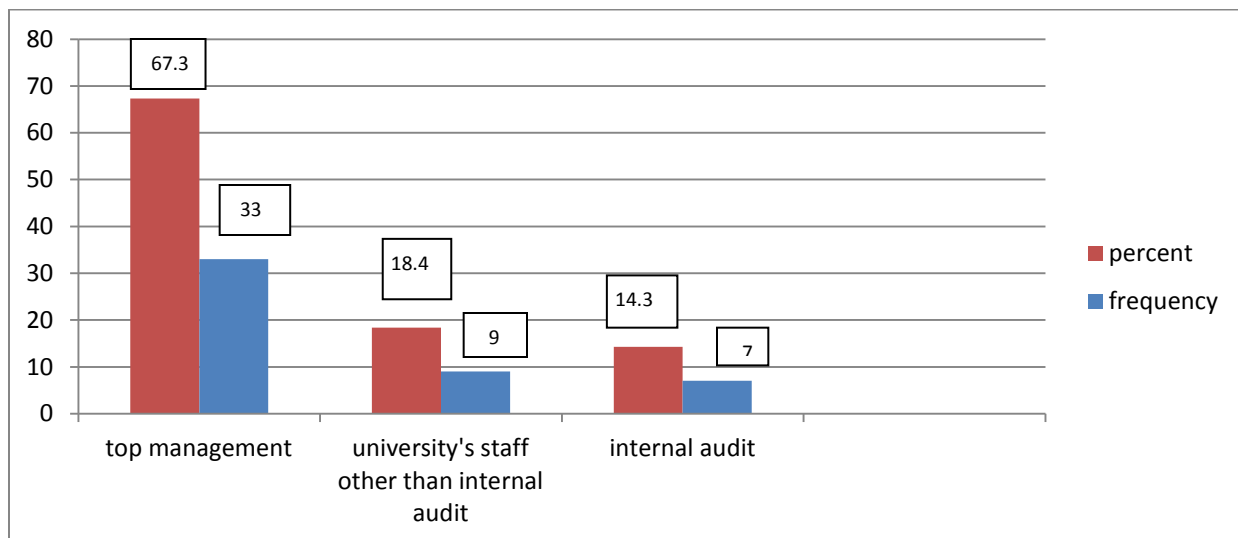
The survey instrument attempted to identify the most difficult audit findings to rectify at universities. As Figure 4.5 shows, of the forty Nine respondents, 30.6 percent of them claimed that refunding of payments made to academic and administrative staffs for allowance and other benefits from internal revenue as the most difficult recommendation to implement at universities, while 28.6 percent of them claimed that recommendations related to non-comply of procurement rules/directives as difficult to implement. The above findings may highlight anomalies or areas of higher risk so government has to give due attention to improve their monitoring and reporting activities, trends, and performance to strengthen overall oversight.

Figure 4.5 Challenging audit recommendation to implement



With respect to the responsibility to implement audit recommendations given to the universities, most of respondents 67.3 percent consented, top management is responsible for the implementation of audit recommendation and 18.4 percent of the respondent agreed that employees of universities other than internal audit as responsible to implement the audit recommendation and some respondents give the responsibility to internal audit (see Figure 4.6). However, none of respondents considered external party (parliament members) as a responsible to implement the audit recommendation.

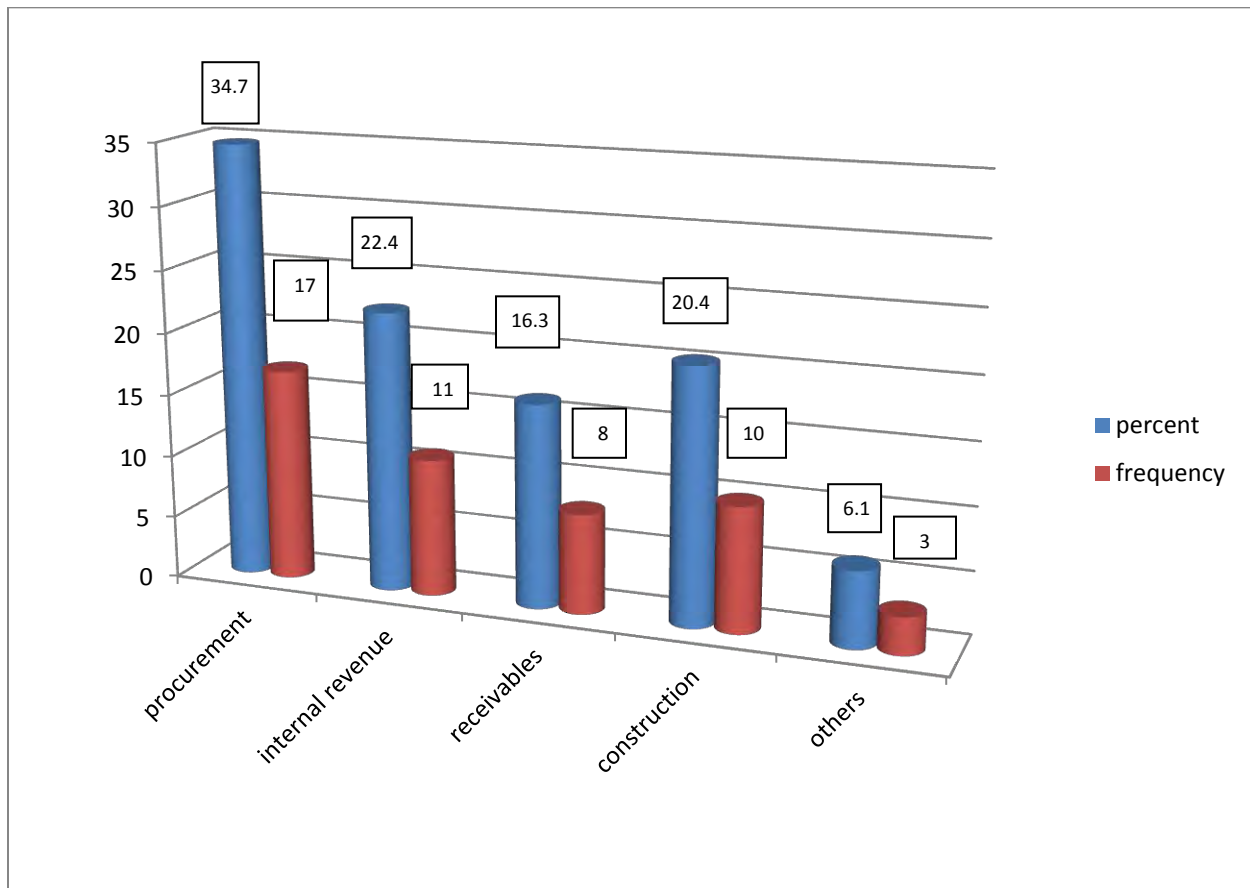
Figure 4.6 Responsible to implement audit recommendation



4.2.4. Key Areas and cause of cyclic audit findings at university

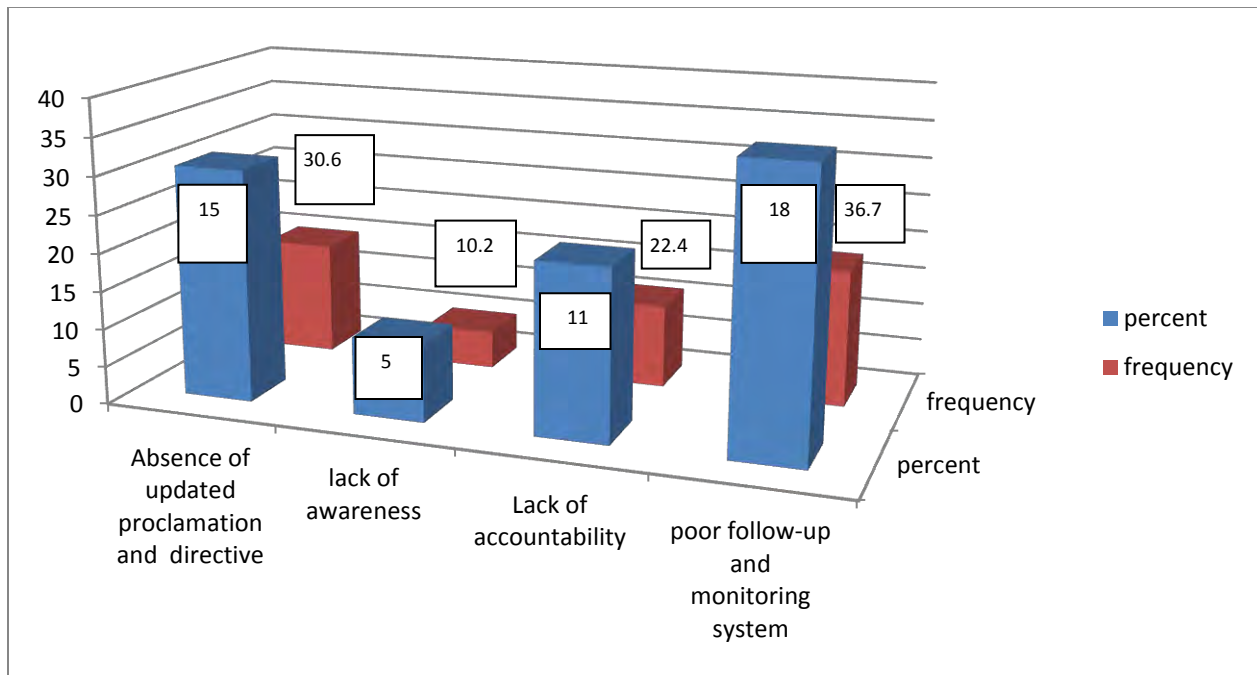
The research sought to find out the key areas that audit findings repetitively have been observed and the main reason why these audit findings have been occurred at public universities persistently. According to the findings shown in Figure 4.7, 34.7 percent of the respondents indicate that procurement is the key area that audit findings have been observed repetitively. 22 percent of the respondent agreed that internal revenue is the second area that similar audit findings were observed. Payments related to construction considered as the third key area where audit findings were persistently detected. Therefore, due attention should be given on these areas to reduce existence of repetitive audit findings. Due to this reason, unless public sectors comply with the government rules and directives properly, inefficiencies and waste of resources hinder achieving of government set objectives.

Figure 4.7 Main Areas of Cyclic audit findings



36.7 percent of the respondent agreed that the main causes of repetitive audit findings were occurred due to both internal and external *non action oriented follow-up and monitoring system*. The second ranked factor for existence of similar audit findings year to year was, *absence of revenue directive about utilization of internal revenue and absence of updated proclamation and directives considered by 30.6 percent of the respondents as shown in Figure 4.8 below*

Figure 4.8 the main causes for repetitive audit findings



4.2.5. Factors that affect implementation of audit recommendation

Government audit organizations regularly disclose a wide variety of ways to improve government programs and operations through their recommendations. Because recommendations in audit reports highlight actions that are expected to improve entity performance when implemented and generally address risks to the successful delivery of outcomes. However, implementation of audit recommendation is the most challenging one. Hereunder, results and analysis of findings related to challenging factors of implementation of audit recommendation at universities presented.

To identify the challenging factors among the twenty five items, their relative severity were used. Thus, the twenty five responses in part four of the survey instrument ranked according to their

rated percentage. In other word, the sum of respondents percentage who were either strongly agreed or agreed (i.e., 5 or 4 on a 5 point scale) with the items used.

As Table 4.7 shows, 79.5 percent of respondents considered „*Failure to implement audit recommendations due to lack of commitment and support demonstrated by top management*, 77.5 percent respondents considered „*Absence of active status of monitoring by Ministry of finance and Economic cooperation (MOFEC)* taken as the second factors and 75.5 percent of the respondents agreed that *High administrative staff turnover* and *absence of action oriented follow up by members of Parliament on OFAG’s audit findings*” as the third challenging factors of adoption of audit recommendation at universities (both ranked third). As rated by 73.4 percent of respondents, the next challenging factor disclosed as “*The finding and the recommendation does not clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations*”; was taken as the fifth challenging factors affect implementation of audit recommendation

Table 4.2: Rank of factors that affect implementation of audit recommendation

Rank*	Category**	factors affecting implementation of audit recommendation	frequency	Percent*** n=49
1	TMSF	Failure to implement audit recommendations due to lack of commitment and support demonstrated by top management	39	79.5
2	MF	Absence of active status of monitoring by Ministry of Finance and Economic cooperation (MOFEC)	38	77.5
3	EPF	High administrative staff turnover	37	75.5
3	FF	Action oriented follow up were not performed by members of Parliament on OFAG’s audit findings	37	75.5
5	ARF	Audit finding and recommendation does not clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations	36	73.4
6	MF	Council of ministers does not take adequate actions based on audit findings and recommendations	34	69.4
6	TMSF	Lack of responsiveness of managements to make changes for improvement based on auditor’s recommendation	34	69.4
8	EPF	Low staff motivation particularly for administrative /supportive staff	33	67.3
8	MF	Monitoring does not cover the effectiveness of	33	67.3

		internal control system.		
10	FF	Top management do not followed up audited areas where control weaknesses were detected	32	65.3
11	TMSF	Less attention was given to public finance management system than academic services by managements	31	63.3
11	FF	Ministry of Finance and Economic cooperation (MoFEC) does not support auditees" to rectify audit findings through follow up audit on timely.	31	63.3
11	EPF	Lack of adequate training and Capacity Building for administration staff.	31	63.3
14	ARF	Audit recommendations lack what action to be taken(lacks specificity)	30	61.2
15	MF	The Management does not use the reports of internal auditor to monitor controls	29	59.2
15	FF	Managements are not communicating the actions taken on recommendations on time as specified and suggested by the auditor.	29	59.2
15	TMSF	Time constraint to implement audit recommendations	29	59.2
18	MF	Monitoring is not on continuous basis	28	57
19	EPF	Employee's lack of minimal education and experience	26	53
20	EPF	Inadequate working tools to implement audit recommendations	24	49
21	ARF	Audit recommendations are not directed to those who have responsibility and authority to act on them	19	38.8
22	FF	Office of the Federal Auditor General (OFAG) reports were still premature to be followed up	18	36.7
22	ARF	Audit recommendations are not well supported by facts	18	36.7
24	TMSF	Insufficient understanding about audit findings and recommendation by management	15	30.6
25	ARF	Audit recommendations are not cost effective to implement	14	28.6

* Items that have similar percentage, ranked similarly and the next rank number jumped

**ARF= Audit recommendation Factors; EPF=Employee's performance Factors; TMSF= top management support factors; MF= Monitoring Factors; FF= Follow-up Factors.

*** The percentage of respondents who were either strongly agreed or agreed with the item as implementation of audit recommendation challenging factors at universities.

With respect to top management support category, over 63 percent of respondents showed a higher degree of agreement with three factors (see Table 4.2). Namely, „*lack of commitment and*

support by senior management“, *top management's less attention to public financial management system and Lack of responsiveness of managements to make changes for improvement based on auditor's recommendation*“ were considered as challenging factors of acting on audit recommendation. This implies that unless top managements are committed and shows their support to strengthen the public financial management system, employees of the organization could lose their willingness to act on the recommendation.

Sawyer (1995) stated that management’s commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness. GAO (2012) stated as audit findings and recommendations would not serve much purpose unless management is committed to implement them.

Among the top ten challenging factors, three of the monitoring factors category, factor ranked at second, six and eight (see Table 4.2). That is, „*Absence of active status of monitoring by Ministry of Finance and Economic cooperation (MoFEC), absence of action taken by council based on audit findings and recommendations and Monitoring does not cover the effectiveness of internal control system*“ considered by 77.6, 69.4 and 67.3 percent of respondents as the challenging factor to delay the implementation of audit recommendation respectively. This implies that internal and external monitoring plays an important role in implementing audit recommendation to ascertain public resources are used for the intended purpose.

Marsidi(2002:12-16; Thai 1992: 350). Stated that without any follow up from Parliament, the Executive, or investigators, audit reports are useless and public accountability cannot be enforced.

For the Audit recommendation factor category, two problems rated by over 61 percent of respondents (see Table 4.2), i.e., „*The finding and the recommendation does not clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations and Audit recommendations lack what action to be taken(lacks specificity)* “ (ranked fifth and fourteenth), Wilkins (1995: 429) pointed out that a recommendation that is not convincing won’t be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.

Among the top ten challenging factors, one of the Employee performance factors category factor ranked at third and eight (see Table 4.2). That is, „*High administrative staff turnover* and *Low staff motivation particularly for administrative /supportive staff* “ considered by 75.5 and 67.3 percent respectively as the challenging factor to delay the implementation of audit recommendation.

Keah Hope Matendera(2011) stated that *High staff turnover* considered as one of the leading challenging factors in which affect public institution performance.

Two of the top ten challenging factors concern to the follow-up factors category (see Table 4.2). Among the follow-up factors, 75.5 percent of respondents regarded „ *Action oriented follow up were not performed by members of Parliament on OFAG’s audit findings*” as the most challenging factor. These imply that unless action oriented follow up and communication were conducted by Parliament, the Executive, or senior managements of the auditee organization, audit reports are useless and public accountability cannot be enforced.

To comprehend the relative severity of the thirty challenging factors that affects implementation of audit recommendation, average values calculated for each Five-category factors based on the percentage value in column four of Table 4.2. The percentage value was calculated based on the respondents’ degree of agreement, i.e., either strongly agree or agree (5 or 4 in 5 point scale). The percentage average values of the five-category factors in descending order are: 1) monitoring factor (66.1 percent); 2) top management support factors (61.64 percent); 3) employees’ performance factors(61.6 percent);, 4) follow up factor (60.4 percent); and 5) Audit recommendation factors (47.7 percent);

It is noticeable from the above average values that audit recommendation factors ranked at bottom, while factors related to monitoring factors ranked at the top. In addition, top management support, employees' performance factors and follow up factors ranked at the middle.

So far, results and analysis related to various challenging factors presented. The finding suggests that implementation of audit recommendation at universities were constrained by various challenging factors. As Table 4.2 shows, among the twenty five challenging factors, 19 of them were rated by more than 50 percent of respondents as the most challenging factors. These 19

factors were accounted to limit the extent of implementation of audit recommendation between 21 to 40 percent. This also implies that the benefits expected from audit recommendation were not adequately realized due to 19 challenging factors. Thus, the research question 3 answered in these regards.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this last chapter is to present summaries of major findings, concluding remarks, and suggested recommendations. Thus, the first section presents the study's major findings summaries. The second section presents conclusions. Finally the third section present some sort of recommendation.

5.1. Summaries

The objective of this study was to identify various challenging factors for implementation of audit recommendation in Ethiopian public universities. To achieve this objective, survey was conducted in six universities. Forty nine respondents from different departments in the universities were subjects of the study. The other objective of the study was to identify the key areas of cyclic audit findings and its main factors for repetitive audit findings take place. To achieve this objective, self-administrated quaternaries were used. Hereunder, summaries of major findings synchronously presented.

Findings of the study showed that most of respondents perceived their universities implemented the audit recommendation between 21 to 40 percent. This indicates that about 60 percent of the audit recommendations were not implemented at universities. Refunding payments made for different activity from internal revenue with the consent of board of the universities was taken as the most challenging recommendation to implement as compared to other comments. Poor monitoring and follow up system and absence of clear internal revenue directive and failure to revise procurement proclamation is taken the main causes for existence of repetitive audit findings in procurement and internal revenue.

As it was presented in Table 4.2 more than 50 percent of respondents showed a higher degree of agreement with nineteen challenging factors that affect implementation of audit recommendation. These nineteen challenging factors in descending order are: (1) Failure to implement audit recommendations due to lack of commitment and support demonstrated by top management,(2) Absence of active status of monitoring by Ministry of Finance and Economic cooperation (MoFEC),(3) High administrative staff turnover, (4) Action oriented follow up were

not performed by members of Parliament on OFAG's audit findings, 5) Audit finding and recommendation does not clearly demonstrate that acting on their commendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations, 6) Council does not take adequate actions based on audit findings and recommendations, 7) Lack of responsiveness of managements to make changes for improvement based on auditor's recommendation, 8) Low staff motivation particularly for administrative /supportive staff, 9) Top management do not followed up audited areas where control weaknesses were detected, 10) Less attention was given to public finance management system than academic services by managements, 11) Less attention was given to public finance management system than academic services by managements, 12) Ministry of Finance and Economic cooperation (MoFEC) does not support auditees to rectify audit findings through follow up audit on timely., 13) Lack of adequate training and Capacity Building for administration staff, 14) Audit recommendations lack what action to be taken(lacks specificity) 15) The Management does not use the reports of internal auditor to monitor controls, 16) Managements are not communicating the actions taken on recommendations on time as specified and suggested by the auditor, 17) Time constraint to implement audit recommendations, 18) Monitoring is not on continuous basis and 19) Employee's lack of minimal education and experience

Thus, in view of the survey respondents, the aforementioned nineteen factors limited the percentage of acting on audit recommendation at universities between 21 to 40 percent.

5.2 Conclusions

In general, Public sector auditing contributes to improved public sector administration by enhancing accountability, transparency and encouraging continuous improvement in the appropriate use of public funds and assets and, of public administration performance.

The improvement in public sector accountability can be achieved through audit results and recommendation.

The appropriate and timely implementation of recommendations that have been agreed by entity management is an important part of realizing the full benefit of an audit. However, universities have been challenged to implement the audit recommendations due to various factors. In relation to research question 3, the research findings indicate that nineteen challenging

factors hindered successful implementation of audit recommendation in Ethiopian public universities.

The study clearly demonstrated that acting on audit report mainly depends on both internal and external monitoring factors. Therefore, the benefit of auditing can be ensured if monitoring factors appropriately handled, such as active action oriented monitoring by MoFEC, council of ministers; and ascertaining the effectiveness of internal control system on continuous base is very important to implement audit recommendation effectively.

From top management support factors, senior management “commitment and support and responsiveness to make changes for improvement based on auditor’s recommendation, are critical for implementation of audit recommendation.

From Employee’s performance factors, appropriate organizational structures and remuneration for both supportive and academic staff to reduce employee turnover, adequate training and capacity building to improve their performance and motivate employees, are indicators of effective implementation of audit recommendation.

From follow-up factors, Action oriented follow up by members of parliament, top management followed up in identified control weaknesses, MoFEC support of auditees” to rectify audit findings through follow up audit on timely manner are required to implement the recommendations.

However, audit recommendation factors was seen as challenging factors, but they had the least potential influence on implementation of audit recommendation compared to the above-mentioned factors in Ethiopian public universities. In addition, the study revealed that poor monitoring and follow-up system considered as the main causes for cyclic audit findings of public universities in areas of internal revenue, procurement and construction in descending order.

5.3 Recommendation

Auditing is a cornerstone of good public sector governance and also helps to create the conditions and to reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with laws and regulations.

Results of analysis in the previous chapter showed that monitoring factors (both internal and external) were the most challenging factor to implement audit recommendation at universities.

Thus, it is critical to handle monitoring factors appropriately. Therefore in order to ascertain whether public resources were used for the intended purpose or not, MoFEC should conduct active action oriented monitoring and follow-up on a regularly scheduled basis, strengthen internal audit service to conduct close follow up and report to MoFEC on timely manner. And also required to: issue internal revenue directive to government higher education institutions, make an amendment on procurement directive and build the capacities of public universities in the administration of public finance.

Members of Parliament particularly public accounts committee (PAC) is expected to investigate the money allocated by the parliament to various government agencies is spent as parliament intended through action oriented follow up based on OFAG audit recommendation. Council of ministers also required to take appropriate corrective action based on the audit report to make public managers responsible for their conduct and for their use of public funds to motivate auditee's managements to take corrective measures to prevent violations from recurring; and also the managements of each university required to ascertain the effectiveness of internal control system on continuous base for better government performance and resource management.

- From top management support factors, getting action on recommendations depends, to a great extent, on commitments, that is, on individual and organizational mind set, emphasis, and priority given to recommendation follow-up. Various researchers claimed that lack of commitment and supports by top management lose the benefit of auditing. Thus, universities' top management shall demonstrate active interest on implementation of audit recommendation. This encompasses top management commitment and support, designing and implementing an ongoing monitoring system, accepting and responsiveness to make changes for improvement based on auditor's recommendation. Audit findings and recommendations would not serve much purpose unless management is committed to implement them and clearly communicate all recommendations to employees for implementation; otherwise, Employees' at all level of the organization won't be committed to a system that's not driven , supported, and believed in by top management.
- Employee's performance factors, contributed to delay the implementation of audit recommendation to retain employees it is suggested that reviewing the organization

structure and remuneration scale of employees” particularly the supportive staff is very important. In addition to this it is believed that adequate training and capacity building programs are important in motivating employee”s to perform their duties in effective and efficient manner. Therefore, in order to achieve organization goal managements are expected to take remedial actions promptly.

- Septiana Dwiputrianti (2011) stated that: Audit reports become largely worthless without any follow-up from Members of Parliament, auditees and authorized investigators. therefore, conducting action oriented and timely follow up by legislation and executives (members of Parliament, Ministry of Finance and Economic Cooperation) to rectify audit findings will reduce the main factor of implementation of audit recommendations,

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INTRODUCTION LETTER

Dear Respondent,

REQUEST FOR RESEARCH DATA

My name is Tabor Tekle an MSC student at Addis Ababa University College of Business and Economic carrying out a survey on the “factors affecting Implementation of Audit Recommendation : The Case of Ethiopian Governmental Higher Educational Institute”. In order to complete this study, you’re requested to respond by completing the questionnaire attached to the best of your knowledge. I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Thank you in advance.

Yours faithfully

Tabor Tekle

MSC Student

Student Reg.No. GSC/0007/06

Addis Ababa University
College of Business and Economic
Department of Accounting and Finance

Part one: Information about the Respondent:

1. Educational level

Diploma Degree and Above

2. Field of Qualification

Accounting Management Others

3. Work experience

Less than 5 years between 5-10 years above 10 years

Part two: General Questionnaires regarding auditing

4. Do you have an idea of what the role an external auditor expected to play to strengthen corporate governance in the public sector?

Yes No

5. Do you have any knowledge of audit opinion?

Yes No

Part three: Implementation of audit recommendation

6. To what extent the audit recommendations are implemented in your organization (based on your perception)

0-20% 21-40% 41-60% 61-80% 81-100%

7. Which audit recommendations are challenging to implement

- Collecting liquidation damage revenue from contractor for delay of construction
- Refunding payments made for different activity from internal revenue authorized by university's board
- Recommendations related to non-compliance of procurement rules/directives
- Recommendation related to asset management weaknesses

8. Who is responsible to implement audit recommendations (multiple answers are possible)

Top management university's staff other than internal audit parliament members
Internal audit

Part four: Areas of cyclic audit findings at university

9. What are the key areas that audit findings repetitively occurred in your organization?

Procurement Internal revenue receivables
 Construction Other

10. Why audit findings were repetitively occurred in the above mentioned area? Respond based on your answer in question # 7?

Absence of clear directive lack of awareness
 Lack of accountability poor follow-up and monitoring system

11. Does the organization prepare action plan for all audit findings timely?

Yes No

12. Do you believe that the management implements all documented action plans within agreed upon deadline?
Very high high Medium Low Very low

Part five: Audit recommendation implementation success/failure factors (please tick the box that best describes your response)

Section A: Audit recommendation factor

13. Audit recommendations are not directed to those who have responsibility and authority to act on them

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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14. Audit recommendations lack what action to be taken(lacks specificity)

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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15. Audit recommendations are not well supported by facts

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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16. The finding and the recommendation does not clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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17. Audit recommendations are not cost effective to implement

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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Section B: Employee's performance factor

18. Employee's lack of minimal education and experience

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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19. Lack of adequate training and Capacity Building for administration staff.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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20. High administrative staff turnover

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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21. Inadequate working tools to implement audit recommendations

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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22. Low staff motivation particularly for administrative /supportive staff

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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Section C: Top management support factors

23. Failure to implement audit recommendations due to lack of commitment and support demonstrated by top management

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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24. Less attention was given to public finance management system than academic services by managements

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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25. Time constraint to implement audit recommendations

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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26. Insufficient understanding about audit findings and recommendation by management

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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27. Lack of responsiveness of managements to make changes for improvement based on auditors' recommendations.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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Section D: Monitoring Factors

28. Monitoring does not cover the evaluation of the gap between actual performance and desired performance in audit findings perspective.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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29. Monitoring is not on continuous basis

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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30. Monitoring is built into the normal operating activities

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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31. The Management does not use the reports of internal audit to monitor controls

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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32. Absence of active status of monitoring by Ministry of finance and Economic cooperation (MoFEC)

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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33. Council does not take adequate actions based on audit findings and recommendations

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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Section E: Follow-up factor

34. Top management do not followed up audited areas where control weaknesses were detected.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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35. Managements are not communicating the actions taken on recommendations on time as specified and suggested by the auditor.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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36. Action oriented follow up were not performed by members of Parliament on OFAG’s audit findings

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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37. Office of the Federal Auditor General (OFAG) reports were still premature to be followed up

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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38. Ministry of Finance and Economic cooperation (MoFEC) do not support your organization to rectify audit findings through follow up audit on timely basis.

<input type="checkbox"/> <i>Strongly Agree</i>	<input type="checkbox"/> <i>Agree</i>	<input type="checkbox"/> <i>Neutral</i>	<input type="checkbox"/> <i>Disagree</i>	<input type="checkbox"/> <i>Strongly Disagree</i>
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Educational level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid digree and above	49	96.1	100.0	100.0
Missing System	2	3.9		
Total	51	100.0		

Field of Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid accounting	25	49.0	51.0	51.0
Valid management	13	25.5	26.5	77.6
Valid others	11	21.6	22.4	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Work experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid less than 5 years	24	47.1	49.0	49.0
Valid 5 to 10 years	12	23.5	24.5	73.5
Valid above 10 years	13	25.5	26.5	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Do you have an idea of what the role an external auditor expected to play to strengthen corporate governance in the public sector.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	26	51.0	53.1	53.1
Valid no	23	45.1	46.9	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Do you have any knowledge of audit opinion?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	30	58.8	61.2	61.2
	no	19	37.3	38.8	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

To what extent the audit recommendations are implemented in your organization (based on your perception)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-40 percent	33	64.7	67.3	67.3
	41-60 percent	11	21.6	22.4	89.8
	61-80 percent	5	9.8	10.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Which audit recommendations are challenging to implement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Collecting liquidation damage from contractor for delay of construction	11	21.6	22.4	22.4
	Refunding payments made for different activity from internal revenue authorized by university's board	15	29.4	30.6	53.1
	Recommendations related to non-compliance of procurement rules/directives	14	27.5	28.6	81.6
	Recommendation related to asset management weaknesses	9	17.6	18.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Who is responsible to implement audit recommendations (multiple answers are possible)

		Frequency	Percent	Valid Percent	Cumulative Percent
	top management	33	64.7	67.3	67.3
	university's staff other than				
Valid	internal audit	9	17.6	18.4	85.7
	internal audit	7	13.7	14.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

What are the key areas that audit findings repetitively occurring? (Multiple answers are possible)

		Frequency	Percent	Valid Percent	Cumulative Percent
	procurement	17	33.3	34.7	34.7
	utilization and reporting of				
	internal revenue	11	21.6	22.4	57.1
Valid	unsettlement of receivables	8	15.7	16.3	73.5
	payment for construction	10	19.6	20.4	93.9
	others	3	5.9	6.1	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Why audit findings are repetitively occurring in the above mentioned areas? Respond based on your answer in # 7 question?

		Frequency	Percent	Valid Percent	Cumulative Percent
	Absence of clear directive	15	29.4	30.6	30.6
	lack of awareness	5	9.8	10.2	40.8
Valid	Lack of accountability	11	21.6	22.4	63.3
	poor follow-up and monitoring system	18	35.3	36.7	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Does the organization prepare action plan for all audit findings timely?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	32	62.7	65.3	65.3
Valid no	17	33.3	34.7	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

you believe that the management implements all documented action plans within agreed upon deadline?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very high	19	37.3	38.8	38.8
Valid high	30	58.8	61.2	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Audit recommendations are not directed to those who have responsibility and authority to act on them

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	7	13.7	14.3	14.3
Valid Disagree	21	41.2	42.9	57.1
Valid neutral	2	3.9	4.1	61.2
Valid Agree	13	25.5	26.5	87.8
Valid strongly agree	6	11.8	12.2	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Audit recommendations lack what action to be taken(lacks specificity)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	7	13.7	14.3	14.3
Valid Disagree	9	17.6	18.4	32.7
Valid neutral	3	5.9	6.1	38.8
Valid Agree	20	39.2	40.8	79.6
Valid strongly agree	10	19.6	20.4	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Audit recommendations are not well supported by facts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	15.7	16.3	16.3
	Disagree	16	31.4	32.7	49.0
	neutral	7	13.7	14.3	63.3
	Agree	13	25.5	26.5	89.8
	strongly agree	5	9.8	10.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

The finding and the recommendation does not clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	4	7.8	8.2	8.2
	Disagree	9	17.6	18.4	26.5
	Agree	22	43.1	44.9	71.4
	strongly agree	14	27.5	28.6	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Audit recommendations are not cost effective to implement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	19.6	20.4	20.4
	Disagree	21	41.2	42.9	63.3
	neutral	4	7.8	8.2	71.4
	Agree	9	17.6	18.4	89.8
	strongly agree	5	9.8	10.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Employee's lack of minimal education and experience

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	10	19.6	20.4	20.4
Disagree	13	25.5	26.5	46.9
Valid Agree	18	35.3	36.7	83.7
strongly agree	8	15.7	16.3	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Lack of adequate training and Capacity Building for administration staff.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	5	9.8	10.2	10.2
Disagree	14	27.5	28.6	38.8
Valid Agree	22	43.1	44.9	83.7
strongly agree	8	15.7	16.3	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

High administrative staff turnover

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	4	7.8	8.2	8.2
Disagree	8	15.7	16.3	24.5
Valid Agree	25	49.0	51.0	75.5
strongly agree	12	23.5	24.5	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		
Total	51	100.0		

Inadequate working tools to implement audit recommendations

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	10	19.6	20.4	20.4
Disagree	11	21.6	22.4	42.9
Valid neutral	4	7.8	8.2	51.0
Agree	17	33.3	34.7	85.7
strongly agree	7	13.7	14.3	100.0
Total	49	96.1	100.0	
Missing System	2	3.9		

Total	51	100.0		
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Low staff motivation particularly for administrative /supportive staff

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	8	15.7	16.3	28.6
	neutral	2	3.9	4.1	32.7
	Agree	22	43.1	44.9	77.6
	strongly agree	11	21.6	22.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Failure to implement audit recommendations due to lack of commitment and support demonstrated by top management

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	strongly disagree	9	17.6	18.4	18.4
	Disagree	10	19.6	20.4	38.8
	Agree	23	45.1	46.9	85.7
	strongly agree	7	13.7	14.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

less attention was given to public finance management system than academic services by managements

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	10	19.6	20.4	32.7
	neutral	2	3.9	4.1	36.7
	Agree	22	43.1	44.9	81.6
	strongly agree	9	17.6	18.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Time constraint to implement audit recommendations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	12	23.5	24.5	36.7
	neutral	2	3.9	4.1	40.8
	Agree	21	41.2	42.9	83.7
	strongly agree	8	15.7	16.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Insufficient understanding about audit findings and recommendation by management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	22	43.1	44.9	57.1
	neutral	6	11.8	12.2	69.4
	Agree	11	21.6	22.4	91.8
	strongly agree	4	7.8	8.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

**lack of responsiveness of managements to make changes for improvement based on auditors
recommendation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	3.9	4.1	4.1
	Disagree	9	17.6	18.4	22.4
	neutral	4	7.8	8.2	30.6
	Agree	26	51.0	53.1	83.7
	strongly agree	8	15.7	16.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Monitoring does not address the effectiveness of internal control system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	3.9	4.1	4.1
	Disagree	14	27.5	28.6	32.7
	neutral	4	7.8	8.2	40.8
	Agree	22	43.1	44.9	85.7
	strongly agree	7	13.7	14.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Monitoring is not on continuous basis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	7	13.7	14.3	14.3
	Disagree	12	23.5	24.5	38.8
	neutral	2	3.9	4.1	42.9
	Agree	18	35.3	36.7	79.6
	strongly agree	10	19.6	20.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

The Management use the reports of internal audit to monitor controls

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	12	23.5	24.5	36.7
	neutral	2	3.9	4.1	40.8
	Agree	24	47.1	49.0	89.8
	strongly agree	5	9.8	10.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Absence of active status of monitoring by Ministry of finance and Economic cooperation (MOFEC)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	3.9	4.1	4.1
	Disagree	6	11.8	12.2	16.3
	neutral	3	5.9	6.1	22.4
	Agree	30	58.8	61.2	83.7
	strongly agree	8	15.7	16.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Council of ministers does not take adequate actions based on audit findings and recommendations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	6	11.8	12.2	12.2
	Disagree	7	13.7	14.3	26.5
	neutral	2	3.9	4.1	30.6
	Agree	25	49.0	51.0	81.6
	strongly agree	9	17.6	18.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

top management does not followed up audited areas where control weaknesses were detected

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	3.9	4.1	4.1
	Disagree	11	21.6	22.4	26.5
	neutral	4	7.8	8.2	34.7
	Agree	25	49.0	51.0	85.7
	strongly agree	7	13.7	14.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Managements are communicating the actions taken on recommendations on time as specified and suggested by the auditor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	5	9.8	10.2	10.2
	Disagree	14	27.5	28.6	38.8
	neutral	2	3.9	4.1	42.9
	Agree	21	41.2	42.9	85.7
	strongly agree	7	13.7	14.3	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Action oriented follow up were not performed by members of Parliament on OFAG's audit findings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	3.9	4.1	4.1
	Disagree	9	17.6	18.4	22.4
	neutral	1	2.0	2.0	24.5
	Agree	26	51.0	53.1	77.6
	strongly agree	11	21.6	22.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Office of the Federal Auditor General (OFAG) reports were still premature to be followed up

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	19.6	20.4	20.4
	Disagree	19	37.3	38.8	59.2
	neutral	2	3.9	4.1	63.3
	Agree	13	25.5	26.5	89.8
	strongly agree	5	9.8	10.2	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		

Ministry of Finance and Economic cooperation (MoFEC) support your organization to rectify audit findings through follow up audit on timely basis.

		Frequency	Percent	Valid Percent	Cumulative Percent
	strongly disagree	7	13.7	14.3	14.3
	Disagree	11	21.6	22.4	36.7
Valid	Agree	21	41.2	42.9	79.6
	strongly agree	10	19.6	20.4	100.0
	Total	49	96.1	100.0	
Missing	System	2	3.9		
Total		51	100.0		