



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINES AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Internal audit practice the case of Somali Regional Government Public sector offices,
Ethiopia

A thesis submitted to the Department of Accounting and Finance in partial fulfillment
of the requirements for the degree of Masters of Science in Accounting and Finance.

By

Kaldir Hasan Odowa

June, 2015

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Statement of Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for a degree in any other university and that all sources of materials used for the thesis have been dully acknowledged.

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Statement of Certification

This is to certify that Kaldir Hasan Odowa has carried out his research work on the topic entitled “**Internal audit practice the case of Somali Regional Government Public sector offices, Ethiopia**”. The work is original in nature and is suitable for submission for the reward of the Master’s Degree in Accounting and Finance.

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Date: _____

Abstract

This study examines internal audit practice in Somali regional government public offices, population of the study were 101 internal audit staffs and 80 internal auditors were selected as sample size using simple random sampling. The study investigates key problems in internal audit practices regarding the organizational policy authorizing internal audit, auditee cooperation, independence and objectivity, proficiency and scope of work of internal audit, reporting follow-up and quality review, and planning of internal audit unit. The study adopts mixed method approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques used in the study include survey with internal auditors, documentary analysis and in-depth interviews with financial control support process owners (internal audit department heads). With these research methods, the results of the study reveal that organizational policy authorizing internal audit and reporting follow up and are in line with the standards. But there is lack of auditee cooperation to the internal audit staffs, audit planning is not considered organizational risk profile, independence and objectivity of internal auditors are impaired and quality assurance is not carried out that leads ineffectiveness of internal audit. In the end, the study forwards that both Somali regional state government sector offices and internal audit staffs in the region to should work with the ISPPIA standards formulated by IIA's to mitigate challenges in the internal audit practice in the region.

Key words: Internal Auditing Standard, Internal Audit Practices; Public Sector offices.

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Acronyms and Abbreviations

- CAE: Chief Audit Executive
- CPA: Certified Public Accountants
- IA: Internal Auditors
- IIA: Institute of internal auditors
- IPPF: International Professional Practices Framework
- ISPPIA: International Standards for the Professional Practice of Internal Auditing
- MoFED: Ministry of finance and Economic Development
- OAG: Office of the Audit General
- SPSS: Statistical Package for Social Science
- SRS: Somali Regional State

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Chapter One

1. Introduction

1.1 Background of the Research

The purpose of this chapter is to brief background internal auditing practices, problems relating internal auditing, objective to be reached finding, significance and scope and research method be adopted to reach research objective study. Hence, the chapter is arranged into seven sections as: 1.1 background of the research 1.2 statement of the problems 1.3 objective of the study 1.4 significance of the study 1.5 scope and limitation of the study and 1.6 structure of the study.

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. Internal auditing is an innovative function that has focused on emerging control and audit expertise including control self-assessment, which enlists the support of the employees in diagnosing efficiencies and implementing improvements in different areas of auditing. Internal auditors assist both management and boards of directors and audit committees by examining, evaluating and reporting on the adequacy and effectiveness of the management's risk processes and by recommending improvements when necessary (Soltani, 2007). Similarly, according Ethiopian internal audit manual, auditing is process by which a competent, independent person, accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. Besides recent research shows that IA effectiveness does play a role in ensuring effective management in public sector (Enofe et al. 2013). Moreover, internal audit is considered as a value adding activity in contemporary organizations (AlTwejry, Brierley & Gwilliam 2003; Bou-Raad 2000; Roth 2002; Yee et al. 2008), internal audit function has a positive

effect on the quality of financial reporting, on good government governance, and quality of financial reporting has a positive effect on good government governance Rahmatika, (2013).

Although, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development.

Additionally, Mihret and Yismaw, (2007) has been undertaken study on internal audit effectiveness in Ethiopian public universities revealed that internal audit department of the organization needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness, internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization, and improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations, additionally, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes. likewise, Kedir et al. (2014) studied internal auditing standards and its practice the case of East Arsi Zone, Ethiopia revealed that competency in terms of educational level, background and experience is in line with the standards but auditors also are impaired their independency because most of the time they are attached with internal functional areas.

Following this, in Ethiopia, there are some studies examining internal audit function in the public sector Mihret and Yismaw, (2007), Hailemariam, (2014), Kedir et al. (2014), studied on the determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices and internal auditing standards and its practice the case of East Arsi in Ethiopia respectively. But there is no any study on

internal audit practice in the Somali regional state (SRS) government public sector offices. Therefore, this study is conducted on the internal audit practices in (SRS) government public sector offices with special emphasis on organizational policy in authorizing, auditee cooperation, independence and objectivity of internal audit function (service), proficiency and scope of internal audit (IA), reporting follow-up and quality review, and planning of IA in the SRS government public sector offices and to recommend suitable solutions to the problems.

1.2 Statement of the Problems

Internal audit function is an important function in any organization that has a positive effect on the quality of financial reporting, good government governance, & quality financial reporting has a positive effect on good government governance (Rahmatika, 2013).

Further, According to Ethiopian the internal audit procedure manual internal auditors are employed to provide an independent and objective opinion to the head of public body on risk management, control and governance by measuring and evaluating their effectiveness in achieving the public body's agreed objectives and provide an independent and objective consultancy service specifically to help management improve the public body's risk management, control and governance and applies professional skills through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the public body's objectives and through recommendations for improvement.

Despite, internal audit effectiveness does play a role in ensuring effective management in public sector Enofe et al. (2013), management support, the existence of adequate and competent IA staff, and the availability of approved IA charter contribute for the internal audit effectiveness in the public sector significantly and positively Hailemariam, (2014). Today's internal auditing independency is impaired because most of the time they are attached with internal functional areas, Kedir et al., (2014). Also, recent research on internal audit practices case of Ethiopian governmental higher

educational institutions shows that lack of proper management commitment, lack of developmental programs for internal auditors and other organizational factors are critical factors influencing effectiveness of IAF in the public universities (Bethlehem, 2009).

Although internal audit effectiveness is strongly influenced by the factors depicted above paragraph, internal audit staffs are organized inefficiently with low technical staff proficiency, that does not prepare a strategic plans to conduct their activities to produce effective internal audit output to their organization (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007). Furthermore, recent research on internal audit effectiveness on an Ethiopian public sector case study by Mihret and Yismaw, (2007) shows that internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization, scope of internal audit services is limited to regular activities. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements, the study has also shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations.

Even though, there are some studies on internal practice in Ethiopia they did not entire internal audit practice but only focusing specific points for example, Hailemariam, (2014) do not investigate the quality assurance, planning and risk assessment and reporting follow-up, but only he management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, through the questionnaires administered without considering interview and document analysis. Mulugeta, (2008) on the other hand focuses on the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness. Lastly, Fekadu, (2009) present evidence on the internal audit practices on Ethiopian governmental higher educational institutions, to obtain the required information only open-ended and closed ended questionnaires were used as data

gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data without considering qualitative approach to analyze and interpret.

Therefore, the researcher believed this research preaches that gap by using difference research mixed research approach in order to gather advantages of both approaches and investigating internal audit practice in terms of organizational policy in authorizing, auditee cooperation, independence and objectivity of internal audit function (service), proficiency and the scope of internal audit, reporting follow-up and quality review and planning of IA in the region. Besides the realization of full value of internal audit practice in the region has contribute effectiveness of good governance. The study examined the internal audit practices in the Somali regional state (SRS) government public sector offices, in addition to this, there is no research on internal audit practice in the region before, that among reasons that leads to done this research.

1.3 Research Questions

In order to achieve the intended objectives of the study and to address the research problem, the following research questions were formulated:

- I. Does organizational policy in authorizing internal audit in SRS government sector offices exist?
- II. To what extent managers or employees of SRS government public sector offices have proper understanding, knowledge and support of internal audit role in good governance?
- III. To what extent is the availability of independence and objectivity, scope and proficiency of internal audit in government public offices?
- IV. To what extent there is the quality assurance of internal audit unit?

1.4 Objective of the Study

This section presented the general and specific objectives of the study.

1.4.1 General Objective

Internal auditing has a number of important roles if it is effectively and carefully carried out. It can make a significant contribution in assurance and consulting activity designed to add value and improve the public body's operations. It helps the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Therefore, the general objective of this was the examination of the internal audit practice in the Somali regional state public sector offices.

1.4.2 Specific Objectives

- I. To assess organizational policy in authorizing internal audit in SRS government sector offices.
- II. To examine the extent managers or employees of SRS government public sector offices have proper understanding, knowledge and support of internal audit role in good governance.
- III. To investigate the independence and objectivity of internal audit in SRS government sector offices,
- IV. To examine proficiency and scope of internal audit in SRS government public sector offices.
- V. To investigate the reporting follow-up and quality review and planning of internal audit unit
- VI. To recommend alternative solutions for the actual problems identified by this research.

1.5 Significance of the Study

Internal auditors are responsible for evaluating and contributing to the improvement of governance, risk management, and control processes using a systematic and disciplined approach. Therefore, this research could be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the internal audit practice in SRS government public sector offices. And also it enables the SRS government public sector offices, specifically the managements, the higher responsible body, and audit committee of selected public sector to be aware of the importance internal audit function and gives insight how they use the internal audit service most efficiency.

1.6 Scope and limitation of the Study

The study, focus on the internal audit practices in the government public sector offices only and it would be more successful if it is conducted in all public sector offices and privately owned organizations. But due to time and financial constraints it is conducted only selected 80 internal auditor in the public sector offices which are expected to show the practice of rest of internal audit staffs in the region. Besides that, there were also some restrictions in the interview sessions. Some of the interviewees did not allow their conversation to be recorded. There were also some interviewees who allowed their conversation to be partially recorded. Hence, interviewers faced difficulties to recap their good points. In addition scope of study is selected component of internal audit practices; such as organizational policy in authorizing internal audit (IA), auditee cooperation, independence and objectivity, proficiency of IA and scope of work of internal audit, reporting follow-up and quality review, and planning of internal audit unit.

1.7 Structure of the study

This research involves five chapters. the first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research

objectives, research questions, significant of conducting the study, scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit practices. The third chapter expresses the information regarding the sampling techniques used to conduct the research. The fourth chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about the summary of finding, conclusions and recommendations of the case study followed by the references and appendixes.

In this chapter it was presented background of the research, statement of the problems, objective, significance, scope and limitation of the study, research methods and structure of the study next chapter is literature review.

Chapter Two

2. Literature Review

In the previous chapter, the main problems and objectives to be addressed in the study have been stated. This chapter presents the review of related literature. The chapter is organized in three sections. The first section reviews theoretical studies on internal auditing practices while the second section presents the empirical evidence on internal auditing practices and related issues. The final section provides concluding remarks on the review of the literature and identifies the knowledge gap that has been addressed in the study.

2.2 Theoretical Review

In this section it presents theoretical review of relating to internal audit and its practices.

2.2.1 Definition and Scope of Internal audit

In the past, internal auditing was defined as:

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. This statement is more an introduction than a definition. It tells little about what internal auditors are responsible for. We will have to look further for a definition that embodies the broad, unrestricted scope of professional internal auditing (Sawyer, 1988).

Accordingly, IIA new definition of internal audit, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Griffiths, 2005)

'Independent' the concept of independence is fundamental. Internal auditing cannot survive if it is not objective. All definitions of internal audit feature an element of

independence, although its extent, and how it is achieved, is a topic in its own right. The audit function must have sufficient status and be able to stand back from the operation under review for it to be of use. If this is not achieved, then this forms a fundamental flaw in the audit service and some internal audit functions may not be able to subscribe to the standards. (Pickett, 2005).

2.2.2 The Four Main Elements internal audit

The scope of internal auditing is found in the Institute of Internal Auditors' implementation standard 2110.A2 which states that: the internal audit activity should evaluate risk exposures relating to the organization's governance, operations and information systems regarding the: reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, compliance with laws, regulations, and contracts.

2.2.3 The Audit Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board. As indicated ISPPIAS attribute 1000 – Purpose, Authority, and Responsibility requires that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval (IIA's 2012).

2.2.4 Audit Competencies

The first thing that needs to be in place to ensure competent internal auditors is effective human resource policies and practices. Here we are concerned with the attributes of successful internal auditors. The IIA Practice Advisory 1210-1 deals with proficiency and requires that each internal auditor should possess certain knowledge, skills, and other competencies (Pickett, 2005).

2.2.5 Quality control in auditing at international level

Three components comprise the framework for assuring quality in auditing: standards, ethics, and internal and external quality reviews. This system encompasses the activities of the regulatory agencies, standard-setting and professional bodies associated with financial reporting and the audit of publicly listed companies. The establishment of an appropriate oversight mechanism in auditing strongly contributes to increasing the credibility of the audit profession. Although it is necessary that supervision be undertaken in the first instance by the profession itself, the ultimate responsibility for ensuring that auditors carry out their tasks with due care and in full independence remains with the regulatory bodies. This issue is particularly important for independent auditors of public companies (Soltani, 2007).

2.2.6 Main Challenges for Internal Audit

The main challenges (in addition to broadening the skill base and extending the scope of the work programme to encompass all key business risks) were to enhance the cost effectiveness and value added by the function. Risk-based auditing a further challenge was to gain greater acceptance from senior management and thereby be in a position to influence strategic thinking. This in turn should enhance the reputation of the function and provide the opportunity for internal audit to become a greater source of future management talent for the business. The final challenge cited by a number of

Directors was for Internal Audit to take a broader role in the Corporate Governance agenda (Griffiths, 2005).

2.2.7 Types of Audits

According to Ethiopian internal audit manual auditing can be mainly grouped into four types:-

- **Financial audit:** involves verification of financial data to express opinion on their validity and reliability
- **Compliance audit:** involves verifying adherence to policies, plans, procedures, laws and regulations
- **Value for money (performance) audit:** is a forward looking evaluation of operations to identify areas in which economy, efficiency and effectiveness (the three E's) may be improved or to evaluate compliance with and the adequacy of operational policies, plans and procedures. It involves evaluation of inputs, process and outputs. Other names used to describe this type of audit include Operational, Management and Three E audit.
- **Environmental audit:** is an audit which confirms the degree of compliance with both internally and externally determined emission and pollution standards (MoFED,2005).

2.2.8 The role of internal audit

The role of internal audit has been transforming along with changes in its environment. McNamee and McNamee (1995) as cited by Mihret (2010) discuss three major phases of transformation in the history of internal audit (IA). Pre 1940s, IA was mainly focused on checking propriety of transaction and records. In the 1940s, the development of information economy based on the concept of systems caused the emergence of modern

IA with a systems evaluation approach. In this phase, IA has been concerned with checking compliance with policies and procedures. Then, since the 1990s another wave of transformation led IA to be viewed as a value adding service with a broader scope of activities including assisting organizations in the management of risk.

Similarly, Spira and Page (2003) explain contemporary IA's shift in emphasis as a result of pressures on organizations that caused changes in responsibilities of boards of directors, management and external auditors. Various corporate governance initiatives in the USA and the UK caused a change in the meaning of internal control to incorporate management of risk. For example, Committee of Sponsoring Organisations (COSO) framework's definition considers internal control as aiming to provide assurance regarding efficiency and effectiveness of operations, reliability of financial reports, and compliance with applicable laws and regulations (Committee of Sponsoring Organisations 1992). Such changes created opportunities for IA to provide consulting services to management and assist boards of directors to manage risk.

2.2.9 International Internal Auditing Standards

According IIA's International Standards for the Professional Practice of Internal Auditing (*Standards*) revised 2012, internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

If the *Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the *Standards* and other

standards, internal auditors and the internal audit activity must conform with the *Standards*, and may conform with the other standards if they are more restrictive.

The purpose of the *Standards* is to:

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

The *Standards* are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements (IIA's 2012).

2.2.10 Internal Audit Reporting Structure

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

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

the internal audit function to execute its responsibility. On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day to-day operation of the internal audit function it typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures (Gleim, 2002).

2.2.11 The Development of Internal Audit in Ethiopia

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s. The first substantial development during this period was the issuance of Ministry of Finance directives in 1942 (Kinfu, 1990). This was followed by the formation of the Audit Commission by Proclamation No. 69/1944 to undertake external audit of accounts of the Ministry of Finance (Government of Ethiopia, 1944), which was subsequently mandated to conduct the external audit of other budgetary institutions as well. This marks the start of today's Office of the Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in the country. The second development was the formation of the Office of the Auditor General (OAG) was then established in 1961 by proclamation number 199/1961 (Government of Ethiopia 1961), which accorded the OAG greater authority than the Audit Commission that was established in 1944. (Kinfu, 1990). Internal audit as a separate function also appeared in this period (in 1987) when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises (Argaw, 2000). This proclamation also gave the auditor general the authority to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations.

The Ethiopian government has also been providing enhanced support to the development of internal audit since 1994 (Teklegiorgis, 2000). In 1994, the Prime

Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFED) has been mandated to develop a manual for internal audit in government organizations. Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia's (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s.

2.3 Review of empirical studies

The previous section was presented the theories of internal audit focusing on role, components, types and challenges of internal audit. This section presents reviews of the empirical studies on the internal audit practices in public government sectors. The second part of this chapter has addressed and examined comparatively empirical evidence from different public sector internal audit practices in countries such as Philippine, Saudi Arabia, Sudan, Ghana, Malaysia, Kenya and Ethiopian represents developing countries whereas New Zealand, USA and Australia represents developed countries. This review is arranged through team based literature review rather than chronological based.

Internal audit effectiveness does play a role in ensuring effective management in public sector (Enofe et al., 2013), internal audit is considered as a value adding activity in contemporary organizations (Al-Twaijry, Brierley & Gwilliam 2003; Bou-Raad 2000; Roth 2002; Yee et al. 2008). Internal audit function has a positive effect on the quality of financial reporting, on good government governance, and on good government governance (Rahmatika, 2013).

Junio-Sabio, (2013) studied on the state of internal audit practice in selected Philippine government agencies basis for policy advocacy. In this study, the researcher made use

of the descriptive survey method of research. Thus, the respondents of this research were basically the heads of internal auditing units of various government agencies. From the listing taken from the association of government internal auditors (AGIA) there were forty-four (44) internal auditing units (IUA) from national government agencies (NGAs). Government owned and controlled corporations (GOCC), legislative bodies, constitutional commissions and judicial service, applying the Sloven's formula in getting the sample size the researcher generated a total of forty (40) respondents. The study revealed that the current state of internal audit practice in the Philippine Bureaucracy is characterized by often performing the essential internal auditor roles. Specifically, the practice include the usual compliance with the IIA attribute standards.

Study by Alzeban and Sawan, (2013) on the role of internal audit function in the public sector context in Saudi Arabia based through Archival and documentary analysis, supported by 29 semi-structured interviews data collection method and reported that internal audit suffers from a lack of support from top management. Similarly, Brierley et, al., (2001) Assessed study on the problems of establishing internal audit in the Sudanese public sector, through interview and direct observation research methods and revealed that there is a lack of cooperation and coordination between the various parties responsible for internal audit in the public sector. Likewise, Study conducted by Onumah and Krah, (2012), on barriers and catalysts to effective internal audit in the Ghanaian public sector, This study collected the data from 120 internal auditors in 40 ministries, departments and agencies (MDAs) through a self-administered questionnaire, and semi-structured interview with a senior manager of the Internal Audit Agency. The study revealed that the effectiveness of internal audit in the Ghanaian public sector is hampered by lack of management ownership and support for internal audit activities.

A study in Malaysia by Ali et al. (2004) looked at internal audit in the state and local governments of Malaysia was found that the internal audit function in the public sector in Malaysia is curtailed by inadequate support from top management while, the auditors seldom extend their full cooperation. Additionally, Ali et al. (2004) indicated that in

many organizations, the non-audit personnel and top management are generally unsupportive of internal audit. Likewise, study by Sarens and De Beelde (2004), it was found that when internal audit got strong management support, it was in turn a strong support function to management manifested by internal audit mission and plan being aligned with management objectives and priorities. The study by babirye Mary (2007) revealed significant and positive relationship between, management and staff commitment and support to internal audit function. When internal audit has strong management support and is considered as a strategic important function, more consulting activities will be performed Rittenberg and Covaleski, 1997 (as cited in Sarens and Beelde, 2004) The perception and attitude of management towards the internal audit can have significant influence on the employees' behavior (Barret, 2001) and how they will respond to its operations.

Shamsuddin et al. (2014) examines the factors that influence the effectiveness of the internal auditors' functions in public sectors in Malaysia. Data were collected through semi-structured face-to-face interviews conducted on eight internal auditors from three government ministries as well as an auditor from the Auditor General (AG) office. The findings from this paper suggesting that internal auditors in public sector are facing difficulties in carrying out their functions effectively due to lack of independence since they have to audit their own "boss".

Study by Alzeban and Sawan, (2013) revealed that It was confirmed by all interviewees that whilst internal auditors have their own separate departments in the organizational structure, these departments, nonetheless, operate under the administrative leadership of lower level managers, internal audit report to the same level in which they are placed in the organizational structure, a significant gap between the theoretical and the actual reporting structures, also interviewees a result indicated two other main causes of the restricted access faced by internal auditors in respect of their ability to meet with personnel and to obtain the relevant information needed to fulfil their duties. Furthermore, Alzeban and Sawan, (2013) observed that even when the internal audit

was located at a relatively senior managerial level, it might still be subject to pressure from more highly placed management. Simultaneously, top level managers control organizational resources which they may withhold to prevent an in-depth investigation by internal auditors of a matter which they do not want to be probed. Also Alzeban and Sawan, (2013) noted that some other reasons for the challenge to the independence of internal audit emerged as being the relationship between auditees and auditors. Onumah and Krah, (2012) argued that the effectiveness of internal audit in the Ghanaian public sector is hampered by several factors such as lack of budget authority of the internal audit units and weak functioning of audit committees, among others.

Okibo & Kamau (2012) Exploring internal auditor independence motivators to Kenyan perspective, the study collected its data using a self-made questionnaire which was distributed among auditors in Kenya so as to establish the status of internal auditor's independence in Kenya. The researchers observed that the level of involvement by the internal auditors in the management activities significantly affects their professional independence. The study also observed that audit committees effectiveness also plays a significant role in enhancing audit independence. Organizations may therefore consider building capacity of the audit committees so as to improve internal audit independence. Additionally, Kamau et al. (2012) found out that there is a statistically significant causal relationship between the level of internal auditor's skills and auditor independence in Kenya.

Alzeban and Sawan, (2013) shown that the internal audit activities had not expanded beyond the traditional audit of financial regularity and compliance; and that the primary work of internal audit continues to focus on the traditional roles of internal audit in terms of concentrating on the reliability of financial records and compliance with procedures and regulations. Onumah and Krah, (2012) argued that the scope of internal audit services in the Ghanaian public sector is limited to regular audit activities, mainly pre-audit of payment vouchers which take estimated 74% of the average productive audit time.

Alzeban and Sawan, (2013) argued that competence of internal audit was unanimously confirmed that the lack of qualified staff stands represents one of the most important problems facing internal audit in the Saudi public sector, and several reasons were offered for this situation, including staff recruitment, educational qualifications, professional qualifications, work experience and continuous development.

Brierley et al. (2001) argued that there is low salary levels, low levels of staff training and expertise, low esteem and motivation of staff are seen in the context of a very limited technological infrastructure to the internal audit in the Sudanese public sector. Study conducted by Onumah and Krah, (2012), revealed that the effectiveness of internal audit in the Ghanaian public sector is hampered by one of the factors is low professional proficiency of internal auditors. Van Peursem (2004) as cited by Cooper et al. (2006) major study has been undertaken in New Zealand by Van Peursem (2004) on internal auditors' role and authority. In this study, internal auditors are asked to come to a view on whether functions they perform in connection with internal audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high 73 percent response rate was achieved over the original and follow-up survey. The study found that characteristics of a “true” profession exist but do not dominate. Additionally, Van Peursem (2004) also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy trained auditors may enjoy greater status owing to the “mystique” of their activities emanating from their membership of well-known accountancy professional bodies.

A study in Malaysia by Ali et al. (2004) as cited by Cooper et al. (2006) looked at internal audit in the State and Local governments of Malaysia. Based on a series of semi-structured interviews, it was found that only a minority of local governments in Malaysia have an internal audit function. The presence of quite a small number of local governments with internal audit may be due to the fact that in at least two states, the internal audit function of their local government departments is conducted by the internal audit departments or units attached to the two state governments. There is no

comfort, however, for such an arrangement though it is certainly better than having no internal audit done at all at the local government level. This is because internal audit in so many of the state governments and their statutory bodies are operating with numerous limitations. The severest problems are concerned with a shortage of audit staff and staff lacking in audit competencies.

A study in Malaysia by Ali et al. (2004) concluded that the internal audit function in the public sector in Malaysia is curtailed by understaffing. The auditors themselves lack appropriate knowledge and training on effective auditing approaches. Junio-Sabio, (2013) Concluded that government internal auditors generally perceived the knowledge elements to be typically important. They generally regard the knowledge relating to administration/management and legal to be very important while management science, financial management, internal control and essentials of auditing to be equally important in Philippine government agencies

Study by Okibo & Kamau, (2012) on to explore internal auditors' compliance with quality assurance standards a case of state owned corporations in Kenya. This research collected data from 24 internal audit units from state owned corporations regarding their compliance with quality assurance standards. The research carried out a hypothesis testing using the data collected to find out whether the audit departments in state owned corporations comply with quality assurance standards. The study found out that there is generally low compliance with quality assurance standards among most internal audit units in state owned corporations in Kenya. The research identified some of the reasons that led to low compliance to include; lack of awareness of standards; non-membership with IIA; non adoption of IPPF; age and experience of the internal audit department and understanding of the quality assurance standards.

Sarens and Mohammad, (2011) studied the factors associated with convergence of internal auditing practices Emerging vs developed countries. The techniques that are used by at least 67 percent of the internal audit functions (IAFs) in the USA. A sample of 26 countries and data from 1,708 IAFs were used in this study. The study revealed

evidence of a high degree of de facto convergence of internal auditing practices toward US best practices. It also finds that IAFs in emerging countries converge more rapidly to best practices than IAFs in developed countries. Finally, the use of the Institute of Internal Auditors' (IIA) Standards and an external quality assessment in the past three years are found to be positively and significantly associated with convergence toward US best practices.

In Ethiopia, there are five studies reviewed regarding tax audit, Hailemariam, (2014), Mihret and Yismaw, (2007), Mulugeta, (2008), Fekadu, (2009), Kedir et al. (2014), Hailemariam, (2014), studied determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices, Mihret and Yismaw, (2007) studied internal audit effectiveness in Ethiopian public sector, Mulugeta, (2008) studied internal audit reporting relationship in Ethiopian public enterprises, Fekadu, (2009) studied internal audit practices a case of Ethiopian governmental higher educational institutions and Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia.

Research findings by Hailemariam, (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests that the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. Mihret and Yismaw, (2007) studied internal audit effectiveness in Ethiopian public sector, commonalities in policies, procedures and organizational contexts of most public sector entities in Ethiopia and the same internal audit manual was used by all public bodies in Ethiopia (Ministry of Finance and Economic Development, 2004). To enhance the quality of data through triangulation, multiple data sources were used. Primary data were collected via questionnaires distributed to internal audit personnel and an interview was conducted with the internal audit director. A review of relevant documents served as means of generating secondary data. The study argued organizational setting do not have a strong impact on audit effectiveness. The study

results by Mulugeta, (2008) on internal audit reporting relationship in Ethiopian public enterprises based on both stratified and random sampling method and primary and secondary data collection method also Both quantitative and qualitative data analysis method were used, argued that the audit charter is not effectively communicated in those organizations. Additionally it shows it is vague and/ or need clarity.

Besides, Fekadu, (2009) studied on internal audit practices a case of Ethiopian governmental higher educational institutions, in this study seven internal auditors were used as data source which were selected using convenience sampling techniques, and used as data gathering tools open-ended and closed ended questionnaires so as to obtain the required information. Then qualitative approaches were employed to analyze and interpret the filled in data. The result indicated that all sample respondents assured the absence of audit charter in each of their respective university rather all respondents stated that they are currently using the audit manual of the government.

Mihret and Yismaw, (2007) studied internal audit effectiveness in Ethiopian public sector the study highlight that internal audit effectiveness is strongly influenced by management support, additionally, Mihret and Yismaw, (2007) indicated that the auditors feel that the university does not sufficiently utilize audit reports and the management's response to the internal audit findings and recommendations is generally not adequate. Similarly, research finding by (Hailemariam, 2014) based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sector office, suggests that the management support contributed for the internal audit effectiveness in the public sector significantly and positively. Mulugeta, (2008) studied on internal audit reporting relationship in Ethiopian public enterprises revealed that all sample respondents understanding of role of internal audit in good governance by management and other organs in the system is low.

research findings by Hailemariam, (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests organizational independent of internal auditors were positively related with the IAE but their contribution for the IAE were statistically not significance. Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia. Accordingly competency, compliance, independency, risk management and quality assurance has been taken as major parameters for comparison. 36 questionnaires were distributed for the target population, and questionnaires were designed to measure the level of agreement of the respondents on the applicability of each parameter. This study revealed that auditors independency is impaired because most of the time they are attached with internal functional areas. Also Fekadu, (2009) revealed that all sample respondents stated that their CAE functionally reports to the president office that has forced them to lose their independence. Contrarily, Mulugeta, (2008) shown majority of his sample respondents believe that the current internal audit structure promotes independency. Study conducted by Mihret and Yismaw, (2007) indicated that the internal audit office reports to the President but the office does not administer its own budget.

The study by Mulugeta, (2008) indicated that the activities of IAF are more of traditional type that emphasize on verification of accounts, compliance, internal control and a little on fraud investigation. Similarly, Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia concluded that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Mihret and Yismaw, (2007) highlighted that the scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness.

Mihret and Yismaw, (2007) shown that the internal audit office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Furthermore, most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service. Fekadu, (2009) noted that according to his sample response in Ethiopian higher governmental institutions internal auditors qualification is adequate for internal audit activities. Also, Mulugeta, (2008) revealed that majority of sample respondents noted that Size internal audit staffs are not sufficient but they are qualified. Similarly, Kedir et al. (2014) stated according data collected to the employees of public enterprises in East Arsi zone, all staffs in the internal auditing department of selected public enterprises found to be competent in terms of educational background, qualification and experience. But the size of the IA staff is small due to the wrong perceptions that they are enough for financial and compliance audits. But ideally they are not sufficient.

Study by Fekadu, (2009) revealed there is no quality assurances program internal audit department, no external quality assessment every five years and hence, no recent quality assessment results communicated by CAE in the Ethiopian higher governmental institutions. Likewise, Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia revealed that public enterprises 'audit department has quality assurance programs. Mihret and Yismaw, (2007) has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations.

Conclusions and Identification of Knowledge Gap

In general, the literature review indicates that internal auditing role is wide. Within the context of improving risk management, control and governance processes, and the type of work undertaken to add value to an organization will vary greatly. Besides internal audit effectiveness is strongly influenced by internal audit quality and management support Mihret and Yismaw, (2007) Hence, IA effectiveness does play a role in

ensuring effective management in public sector there is a needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness. The organizational status and internal organization of the internal audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization, improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. In additions, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes (Mihret and Yismaw, 2007).

The review of empirical studies reveals that most of the studies were outside Ethiopia, but there are few studies work on internal audit practices in Ethiopia but they are not cover all component of internal audit practices. For example, Hailemariam, (2014) do not investigate the quality assurance, planning and risk assessment and reporting follow-up, but only he management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, through the questionnaires administered without considering interview and document analysis. Mulugeta, (2008) on the other hand focuses on the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness. Lastly, Fekadu, (2009) present evidence on the internal audit practices on Ethiopian governmental higher educational institutions, to obtain the required information only open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data without considering qualitative approach to analyze and interpret. Therefore this study, employed mixed research approaches, and investigates internal audit practice in terms of organizational policy in authorizing, auditee cooperation, independence and objectivity of internal audit function (service), proficiency and the scope of internal audit, reporting follow-up and quality review and planning of IA in the region.

This study is needed for three reasons. Firstly, it there is no reliable and comprehensive study to examine internal audit practice in study area. Secondly, it will pave the way forward for the government, and other stakeholders to understand the internal audit practice in the government public sector offices. Finally, this study advances the knowledge of internal auditing in public sector offices. The following chapter provides details of the research method in respect of the identified research problem.

Chapter Three

3. Research Design and Methodology

The previous chapter reviewed both theoretical and empirical studies, and it tried to give a brief conclusion and gap in the existing knowledge. This chapter presents research design used in this study. The remaining discussion in this chapter is organized in three sections. In section 3.1, the different research approaches available to a researcher in general are discussed, and in section 3.2, the specific research methods adopted with proper justification for adopting a certain method are explained. Finally, in section 3.3, concluding remarks are presented.

3.1 Research Approaches

Depending on the philosophical stance, strategies of inquiry and specific methods, a research approach can be categorized as quantitative research approach, qualitative research approach and mixed research approach. The discussions in the subsequent sections present these three approaches of research. Specifically, quantitative research approach, qualitative and mixed methods research approaches.

3.2.1 Quantitative Research Approaches

This refers to the type of research that is based on the methodological principles of positivism and neopositivism, and adheres to the standards of a strict research design developed prior to the actual research. It is applied for quantitative measurement and hence statistical analysis is used. Quantitative research is used in almost every sphere of life, such as in clinical, biological, epidemiological, sociological and business research (Adams et al. 2007).

Researchers who adopt a more deductive approach use theory to guide the design of the study and the interpretation of the results. In line with this, the overall objective of quantitative research is to test or verify a theory, rather than to develop one. Therefore, the theory offers a conceptual framework for the entire study, and it also serves as an organizing model for the entire data collection procedure (Welman and Kruger, 2001).

Shaw (2006) sees quantitative techniques as an attempt to test a hypothesis by incorporating it into the research design and responding to it by measuring its strength and weaknesses that give numerical measurements to the data collected.

Firestone (1987) stated that quantitative data are those which can be sorted, classified, measured in a strictly objective ways. They are also capable of being accurately described by a set of rules or formulae which then make their definition (if not always their interpretation) unambiguous and independent of individual judgments. Quantitative researchers put their emphasis on procedures, methodologies and statistics. As a result, it relies on statistical techniques aided by computational algorithms and software packages for analysis the problem under study.

The well planned and implemented quantitative research has the merit of being able scientific principles moving from theory to data, the need to explain causal relationships between variables, the collection of quantitative data, the application of controls to ensure validity of data, the operationalization of concepts to ensure clarity of definition, a highly structured approach, researcher independence of what is being researched, the necessity to select samples of sufficient size in order to generalize conclusions (Thornhill, 2009).

Notwithstanding the above advantage, quantitative research design has a number of limitations. First, it belittles human individuality and the ability to think. Second, it fails to provide the researcher with information on the context of the situation where the studied phenomenon occurs. Third, it have limited outcomes to only those outlined in the original research proposal due to closed type questions and the structured format and finally, quantitative research appears to lack flexibility in design which may be crucial when additional information revealed through data collection needs further exploration for knowledge.

3.2.2 Qualitative Research Approaches

This type of research uses a number of methodological approaches based on diverse theoretical principles (phenomenology, hermeneutics and social interactionism). It

employs methods of data collection and analysis that are non-quantitative, aims towards the exploration of social relations, and describes reality as experienced by the respondents. Qualitative research methods have long been used in the field of social sciences. For instance, these are the principal methods employed by anthropologists to study the customs and behaviors of people from other cultures, and are also used in such diverse areas as sociology, psychology, education, history and cultural studies. These methods have much to offer in studying the health and well-being of people and their daily lives in business and home. (Adams et al. 2007).

Easterbyet et al. (1991) mentioned that the task of the qualitative methodologist is to capture what people say and do as a product of how they interpret the complexity of their world, and to understand events from the viewpoints of the participants. Creswell (2009) pinpointed that qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative, or change oriented) or both.

Greener (2008) and Creswell (2009) stated that qualitative research approach uses strategies of inquiry such as case studies, narratives research, phenomenology's, ethnographies, action research and grounded theory. Greener (2008) described case study as strategies of inquiry in which the research will involve more than one ways of delivering data about the case or organization/unit under study for a prolonged time period. This may include collecting and analyzing documents, talking to peoples, survey data, participates observation, consumer research and any other data collection techniques which offer qualitative information about the case. According to Creswell (2009) narrative research is a strategy of inquiry in which the research studies the life of individuals and asks one or more individual to provide stories about their lives. This information is then often retold or restored by the researcher into the narrative chronology.

Dawson (2002) explained that ethnography has its roots in anthropology and was a popular form of inquiry at the turn of the century when anthropologists travelled the

world in search of remote tribes. The emphasis in ethnography is on describing and interpreting cultural behavior. Ethnographers immerse themselves in the lives and culture of the group being studied, often living with that group for a prolonged period of time. These researchers participate in group activities whilst observing its behavior, taking notes, conducting interviews, analyzing, reflecting and writing reports. The research process is flexible and typically involves contextually in response to the lived realities encountered in the field setting. Phenomenological research is a strategies of inquiry in which the researcher identifies the essence of human experiences about the phenomenon as described by participants (Creswell, 2009). Understanding the lived experiences marks phenomenology as a philosophy as well as method, and the procedure involves studying a small number of subjects through intensive and prolonged engagement to develop patten and relationships of meaning. Finally Dawson (2002) defined that grounded theory is a strategy of inquiry which was first laid out in 1967 by two researchers named Glaser and Strauss. The emphasis in this strategy is on the generation of theory which is grounded in the data (which means it has emerged from the data). In grounded theory, methods such as focus groups and interviews tend to be the preferred data collection method, along with a comprehensive literature review which takes place throughout the data collection process.

Qualitative research uses data collection methods such as interviews, participant observation, open ended questioners, documentary and audiovisual materials studies and finally the findings are conveyed subjectively through descriptions using words rather than numbers. This means, in qualitative research the main emphasis is on description and inductive discovery of evolving theory that may arise after observation is carried out or data is collected.

Like that of quantitative research method, qualitative research approaches has its own strengths and weaknesses. The advantage of a qualitative research approach is that it provide a more realistic feel of the world that cannot be experienced in the numerical data and statistical analysis used in quantitative research. It is flexible ways to perform data collection, subsequent analysis, and interpretation of collected information. Further, it provides a holistic view of the phenomena under investigation and the

researcher have an ability to interact with the research subjects in their own language and on their own terms.

Despite the above advantage, qualitative research design has its own limitations. First, it required much time for data collection, analysis and interpretation i.e., the researcher has to spend a considerable amount of time in the research setting in order to examine holistically and aggregately, the interactions, reactions and activities (Babbie, 1995). Second, lack of standardized rules in the research design and the emphasis on giving meanings and interpretations to events and things reduces the objectivity. Third, in qualitative research the researches arrives on different conclusions based on the same information depending on the personal characteristics of the researcher (subjectivity) and inability to investigate causality between different research phenomena. Four, the findings of qualitative research cannot be statistically generalized for a broader population of interest for it is based on a small and unrepresentative number of investigated cases.

3.2.3 Mixed Research Approaches

Triangulation is about exposing potentially conflicting perspectives to analysis and showing that data can be integrated and cross-referenced to highlight consistency. Pervez and Kjell, (2005) stressed that to enhance validity, there is a need to collect or analyze data through triangulation and where correctness or precision is important. Hence, it is quite logical to collect information through different methods and angles. Babbie (1995) mentioned that a combination of qualitative and quantitative approaches should be viewed as an acceptable methodological approach for research occupying a variety of epistemological positions.

Creswell (2009) defined that mixed approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem. The data collection also involves gathering both numeric information (e.g., on instruments) as well as text information (e.g., on interviews) so that the final database represents both

quantitative and qualitative information. As a result, when methods are combined, the advantages of each methodology complement those of the other, making a stronger research design that will yield more valid and reliable findings. Indeed, the inadequacies of individual methods are reduced.

In general, according to McKerchar, (2008) the choice among the three research approaches is guided by mainly the research problem apart from the underlying philosophy of each research method. That is, whether the research problem is based on a framework developed deductively through a review of the literature and prefigured information to be collected in advance of the study or to allow it to emerge from participants in the project or both.

3.3 Research Methods Adopted and Technique

This study was incorporated both quantitative and qualitative research approaches (mixed methods) in order to generate the advantage of both approaches. And to address different objectives of the study, which cannot be achieved by a single method. McKerchar, (2010) argues that “each strategy has its strength and weaknesses and the drive for mixed method research is to use one strategy to either inform, validate or compensate for the weaknesses of another”.

3.3.1 Quantitative Aspect-Survey Design

To gather data relevant for internal audit practice in SRS government public sector offices a survey method was adopted with self-administered questionnaire.

survey design in the study, helpful in order to represents a wider population, provides descriptive, inferential and explanatory information, gather data on an economical and efficient, or gathering of information that will not available from archive records. As well as to make inferences. In this regard Fowler, (1984) noted that the strengths of survey methods that result in their wider use included the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere.

Furthermore, from a different type of survey for this study, a researcher was used self-administered questionnaires. When we see the self-administered questionnaires has the advantage of scanning a wide field of issues, population, programs etc. with low cost.

3.3.2 Qualitative Aspect: Semi-structured Interview

Self-administered questionnaires was used to describe what is happening within a study area. Qualitative method mainly includes three kinds of data collection: in-depth interview, direct observation and written documents (Patton 2003). For this study, data collected through semi structured interview.

Semi-structured Interview

An interview is a purposeful discussion with two or more people, and helps the researcher to gather valid and reliable data that are relevant to achieve research questions and objectives. Interviews may be structured (using standardized questions for each respondent), semi-structured, and unstructured conversations (Saunders et al. 2003). Structured interview uses pre-established questions, asked in a predetermined order, using a standard mode of delivery.

On the other hand, unstructured interview attempts to draw out information, attitudes, opinions, and beliefs around particular themes, ideas, and issues without the aid of predetermined questions (Leary, 2004).

As Dowson (2002) noted, semi-structured interview helps the researcher to utilize the advantage of both structured and unstructured interview, so that the interview remains flexible and other important information can still arise.

This study was adopted semi-structured interview to explore the data that is unclear for the researcher and the information that was not be collected through survey and document analysis. The interview was with financial control support process owners (Head of Internal Audit) of the respective government public sector offices.

Documentary Analysis

Document analysis is the collection review, interrogation, and analysis of various forms of text as a primary source of research data. It refers to both a data collection method and a mode of analysis (Leary, 2004).

Document analysis is a tool that may be conducted using documents such as written materials, organizational or program records, official publications and reports, newspapers, a minutes of meeting, and personal documents (diaries, artistic works, letters, photographs and journals) (Patton, 2003).

As Creswell, (2009) noted, use of documentary analysis has its own strengths and limitations.

The strengths are enables the researcher to obtain the language and words of participants, can be accessed to the researcher at a time conveniently, represents data which are thoughtful and economical. Whereas, the limitations include incompleteness, lack of accuracy, requires transcribing or optically scanning for computer entry, not all people are equally articulate and perceptive, and may be protected from private access. In addition to the data obtained through other methods, this study was employed documents analysis such as reports, manuals, journal articles, newspapers, internet, proceedings and other relevant materials. Besides, internal audit standards of the Ethiopian government, specified in the manual closely match those published by the Institute of Internal Auditors Therefore, both internal audit standards of Ethiopian government and ISPPA were used for this study.

Sample Design

Sampling is the process or technique of selecting a suitable sample for the purpose of determining parameters or characteristics of the whole population. Regarding to this Paula et al. (2001) noted that, sampling refers to drawing a sample or selecting a subset of elements from a population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately

measuring opinions and characteristics of a population. The usual goal in sampling is to produce a representative sample. As it is stated by Paula et al. (2001), a perfect representative sample would be a mirror image of the population from which it was selected.

There are two main types of sampling procedures: probability sampling and purposive sampling. Choosing the type of sampling technique depends upon the area of research, research methodology, and preference of the researcher (Dawson, 2002). Probability sampling involves selecting elements randomly in that the selection of any one element is independent of the selection of the other elements while purposive sampling is used to make description rather than generalization (Dawson, 2002). As stated above, the results of the study would be generalized. In addition to this, the researcher believed that all units of the sample frame provide similar information for the study. Therefore, probability sampling is employed.

There are different methods of probability sampling. Among this, stratified random sampling was applied to conduct this research work. Stratified random sampling is a technique which attempts to restrict the possible samples to those which are less extreme by ensuring that all parts of the population are represented in the sample in order to increase the efficiency. In line with this, Louis et al. (2000) and Catherine (2002) stated that stratified sampling involves dividing the population into homogenous groups, each group containing subjects with similar characteristics. Therefore, the researcher to choose stratified random sampling for the current study.

Therefore, according to Somali regional state of Ethiopia three year progress report (EFY 2003- EFY2005), the region has 9 administrative zones consisting of 68 woredas (districts), 4 city councils and 47 regional sector bureaus with 101 internal audit staffs that consist 27 regional sector bureaus, 16 regional inspection staffs that is under BOFED and 58 woredas internal auditing department staffs so that the study population was the total internal audit staffs in the region, & that was population eligible for the study. These sector offices are selected purposively, because the use of purposive

sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs.

As aforementioned above sampling procedure employed in this study was stratified method. During the stratification process, the researcher stratified the population in different groups based on the levels in the region. The researcher was categorize population of the study in to three groups based on their level of government. Researcher grouped in to three different groups A up to C that means regional sector bureaus, woredas (districts) level and city council and inspection department because they are different in terms of scope of work, professional qualification because most of woredas and city council internal audit staffs was diploma level. Inspection department staffs the scope of their work is more than others due to performing internal audit supervision and other related activities, conducting conference two times a year, making capacity training on the woredas auditors. Therefore, researcher grouped “A” up to grade “C” (i.e. Group A represented Regional sector bureaus with 47 internal audit staffs, “B” worades (districts) level with 58 internal audit staffs, “C” regional inspection department with 16 staffs controlled by BoFED) to heterogeneities groups of the population of the study.

Sampling frame is a complete list of the study population. For this study, the sampling frame was all internal auditors in the Somali regional state government sector. All internal auditors employed until the conduct of the survey are included in the sample frame. The total number of internal auditors were 101 until the conduct of the survey.

Determination of economical sample size is a major challenge for a researcher in conducting a survey (Bordens and Abbott, 2005). There is no a standard rule for the determination of sample size. Both large and small sample sizes have their own limitations. Too large a sample might become unwieldy and too small a sample might be unrepresentative. What matters in the determination of sample size is representativeness of the sample to a population. Therefore, from the total population

of 101 in the sampling frame, a sample of 80 respondents was selected using *Taro (1967)* sampling formula with considering 95% level of confidence. Thus, accordingly the participants are grouped according into three categories. Namely i.e. internal auditors of regional bureaus a sample of 21 were selected randomly, woreda level internal auditors a sample of 46 were selected randomly and regional inspection department staffs a sample of 13 of respondents were selected randomly. Total sample size of 80 internal auditors was considered for this study and distributed structured questionnaire. Also 10 financial support process owners were interviewed.

Data Collection

The study was investigated internal audit practice in SRS government public sector offices. The study was used both primary and secondary sources of data, the primary sources of data was obtained from closed ended self-administrated questionnaires and semi structured interviewing with financial control support process owners (internal audit heads) of the respective government public sector offices.

The questionnaires adopted and modified was from the prior author (Mihret and Yismaw, 2007). The questionnaire administered was distributed on randomly selected internal auditors and the financial control support process owners were interviewed. The interview enabled the researcher to capture and ascertain both subjective and objective facts. Thus, face to face interview is important in order to increase probability of response rate and flexibility in extracting more qualitative information.

Secondary data was obtained from documents, reports, journals, proceedings, bulletins, Internet, periodicals, various books and other relevant materials.

Analysis Method

Both quantitative and qualitative data analysis method was used. Based on the nature of the data collected through questionnaires, interview the following procedures and statistical tools was employed.

The data that collected through questionnaires was analyzed using the SPSS version 15.0 (statistical package for social science) for descriptive statistics while result from in-depth interviews with financial control support process owner and document analysis was presented to support to descriptive statistics from survey result.

3.4 Conclusions

In this chapter, research methodology options available to a researcher including quantitative, qualitative, and mixed method approach each using different knowledge claims, strategies of inquiry, and methods of data collection and analysis are discussed. The link of research questions and research methods adopted in this particular study is also presented with proper justification in method selection in line with the strength and weakness of each research method. Mixed research design is opted for the study that helps the researcher to achieve the research objectives, and the required data is collected through survey questionnaire, in-depth interview and documentary analysis.

Chapter Four

4. Results and Discussions

In the previous chapter, the research methodology has been discussed, and the methods adopted for the study to attain the objectives have been stated. This chapter presents the results and discussion of the data collected using different methods. The chapter is organized in two sections first section presents the results of the study that have been collected through different methods adopted and discussion of the results followed by the of conclusions on the chapter in the section two.

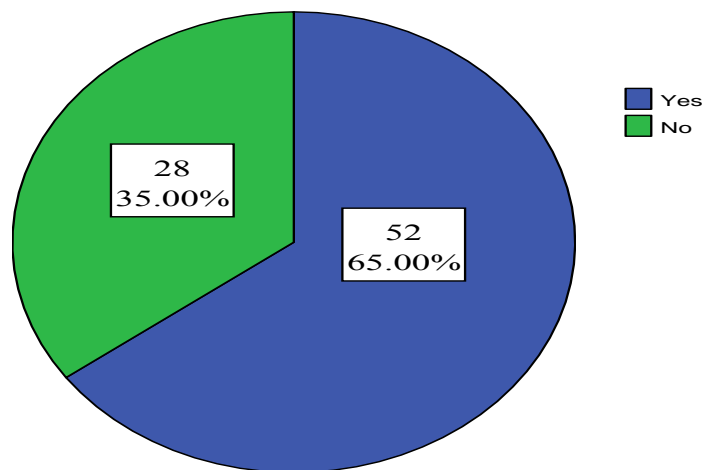
4.1 Organizational Policy Authorizing Internal Audit

Under this title is discussed organizational policy authorizing internal audit in SRS government public sector offices.

4.1.1 Availability of Audit Charter

As it shown Figure 4.1 respondents were asked whether they have audit charter or not, 52 (65%) of the respondents were responded that audit charter is available in their department, remaining 28 (35%) of respondents responded that they don't have audit charter in their audit department.

Figure 4.1 Do You Have Audit Charter



Source: Survey results

Table 4.1 Descriptive Statistics of Organizational Policy Authorizing IA

	N	Mean	Std. Deviation
Internal audit activities Comply with the IIA's standards	80	4.38	.663
authority of internal audit is clearly defined	80	4.45	.634
authority of internal audit is in line with standards for the professional practice formulated by IIA	80	4.13	.817
Document defining internal audits purpose & authority is approved by board of directors or audit committee	80	3.20	1.130
Valid N (list wise)	80		

Source: Survey results

Note: N- number of respondents; response measurements.....5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1 – Strongly disagree

In addition to the above figure 4.3 respondents were other four questions. The mean response of four questions under organizational policy authorizing internal audit were more than 4.00 and the standard deviation were also less than 1.00, except last question which states document defining internal audits purpose & authority is approved by board of directors or audit committee with mean response of 3.20 and standard deviation of more than 1.13, Which indicates that the respondents perception were close to one other except last question. Moreover, internal auditors SRS government public sector offices were asked during the interview internal audit activities and authority Comply with the IIA's standards and they responded that it is comply with the IIA's standards.

Based on table 4.1 questionnaire responses and interview evidence revealed that the internal audit activities comply with the IIA's standards, authority of internal audit is clearly defined and authority of internal audit is in line with standards for the professional practice formulated by IIA. Besides they were said document defining internal audits purpose and authority is approved by board of directors or audit committee is neutral. Therefore, Organizational policy authorizing internal audit is in line with standard formulated by IIA. Similarly, According to ISPPIA attribute standards no.1000 it requires the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics, and the standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. This is in line with research conducted by Junio-Sabio, (2013)

4.2 Auditee Cooperation

In this title it presented auditee cooperation to the internal audit in SRS government public sector offices.

Table 4.2 Descriptive Statistics of Auditee Cooperation

	N	Mean	Std. Deviation
internal auditors have full access to records and information they need in conducting audit	80	2.15	.797
internal audits receive full cooperation from auditees	80	2.08	1.111
The management of your organization has a commitment to add value to internal audit function	80	2.15	1.181
Valid N (listwise)	80		

Source: Survey results

Note: N- number of respondents; response measurements.....5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1 – Strongly disagree

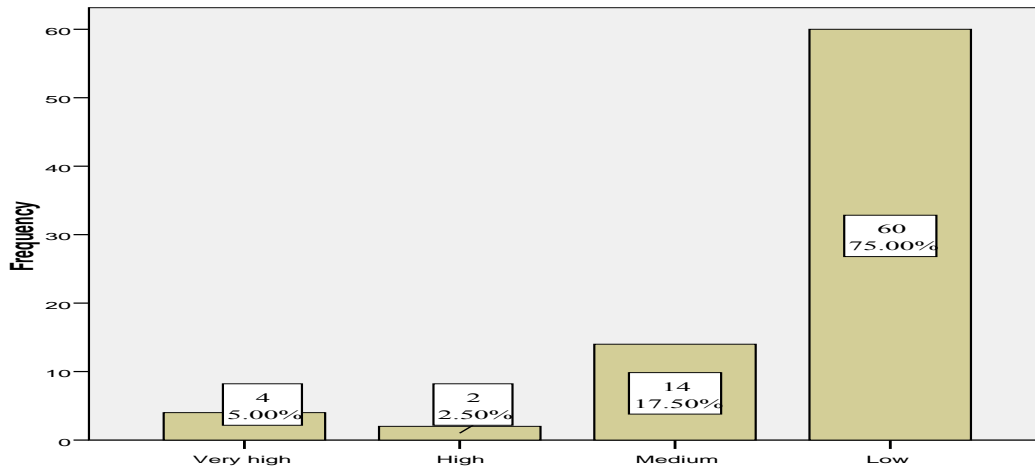
The mean response of three questions regarding to the auditee cooperation to internal audit were more than 2 and the standard deviation were also more than 1.00 except first question which indicated internal auditors have full access to records and information they need in conducting audit and the standard deviation were 797. Therefore, except first question respondent's perception were not close to one other. Based on table 4.2 results internal auditors in SRS government public sector offices disagreed with existence of audit cooperation from auditee in terms of the internal auditors to have full access to records and information they need in conducting audit, internal audits receive full cooperation from auditees, and the management of their organizations have a commitment to add value to internal audit function. On the other hand, respondents were asked during the interview whether they get any cooperation from auditee and they responded that there is no cooperation from auditee when they are doing their responsibilities. The study revealed that selected public sector offices internal audit is not getting any cooperation from auditees. This is in line with research conducted by Mihret and Yismaw, (2007), Alzeban and Sawan, (2013), Onumah and Krah, (2012), and Malaysia by Ali et al. (2004).

4.2.1 Extent the Management and Other Organs Support, Understand and Appreciate the Role of Internal Audit Function in Good Governance.

In addition to the above table 4.2 respondents were asked extent of management and other organs support, understand and appreciate the role of internal audit function in good governance. As depicted figure 4.4 out of the 80 respondents 4 (5%) respondents were responded very high, 2 (2.5%) were responded high, 14(17.5%) were responded medium, and the remaining 60 (75%) respondent were responded low. Furthermore, interview result from respondents indicated that management and other organs did not support, understand the role of internal audit function in the good governance. Therefore, figure 4.2 result indicated the extent of management and other organs support, understand and appreciate the role of internal audit function in good governance is low. This is in line with research conducted by Mulugeta, (2008).

Mihret and Yismaw, (2007), Alzeban and Sawan, (2013), Onumah and Krah, (2012), and Malaysia by Ali et al. (2004).

Figure 4.2 Extent the Management and Other Organs Support, Understand and Appreciate the Role of Internal Audit Function in Good Governance.



Source: Survey results

4.3 Independence and Objectivity of Internal Audit

There were six questions under the independence and objectivity of internal audit, only two questions out of five which were internal audit is free from intervention in performing its duties and internal auditors feel free to include any audit findings in their audit reports, had a mean response of 2.00 and standard deviation of more than 1.00.

Table 4.3 Descriptive Statistics of Independence and Objectivity of Internal Audit

	N	Mean	Std. Deviation
Internal auditors sufficiently detached from functional areas to guarantee its independence	80	2.85	1.303
Internal audit is free from intervention in performing its duties	80	2.00	1.006
Internal auditors feel free to include any audit findings in their audit reports	80	2.25	1.227
Internal auditors provides reports to the board of directors or audit committee	80	3.30	1.391
The board of directors or audit committee oversees employment decisions in internal audit	80	3.30	.960
Internal audit assignment are rotated periodically	80	1.38	.848
Valid N (listwise)	80		

Source: Survey results

Note: N- number of respondents; response measurements....5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1 – Strongly disagree

The remaining the four questions three of them which were internal auditors sufficiently detached from functional areas to guarantee its independence, internal audit provides reports to the board of directors or audit committee and the board of directors or audit committee oversees employment decisions in internal audit were a mean response of is around than 3.00 and standard deviation of all questions were more than 1.00 except last question which states the board of directors or audit committee oversees employment decisions in internal audit with standard deviation of less than 1.00. Additionally, last question which were internal audit assignment are rotated periodically were a response mean of more than 1.00 standard deviation of .848. All six questions except last two questions their standard deviation were more than 1.00. This shows that all above questions except last two is far away from one other. Furthermore, interview result from respondents showed internal auditors are not free from intervention in performing its duties, internal auditors not feel free to include any audit finding in their audit report and there is no internal audit assignment rotation in a periodically.

The implication of the above table 4.3 result showed the internal auditors agreed that internal audit is not free from intervention in performing its duties and internal auditors are not feel free to include any audit findings in their audit reports. Besides, internal auditors said it is neutral that the internal auditors sufficiently detached from functional areas to guarantee its independence, internal audit provides reports to the board of directors or audit committee and the board of directors or audit committee oversees employment decisions in internal audit. Also internal auditors strongly disagree that internal audit assignment are rotated periodically. But According to ISPPIA attribute standards no.1100- The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Therefore, we can conclude that internal audit in the region is not free from intervention in performing its duties, internal auditors not feel free to include any audit finding in their audit report and there is no internal audit assignment rotation in a periodically. But internal audit provides reports to the board of directors or audit committee and the board of directors or audit committee oversees employment decisions in internal audit. This is in line with research conducted by Kedir et al., (2014), Fekadu, (2009), Mihret and Yismaw, (2007), Shamsuddin et al, (2014), Alzeban and Sawan, (2013).

4.4 Proficiency and Scope of Internal Audit

This section presents result analysis and discussion for the proficiency and scope of internal audit of internal audit in the SRS government public sector offices.

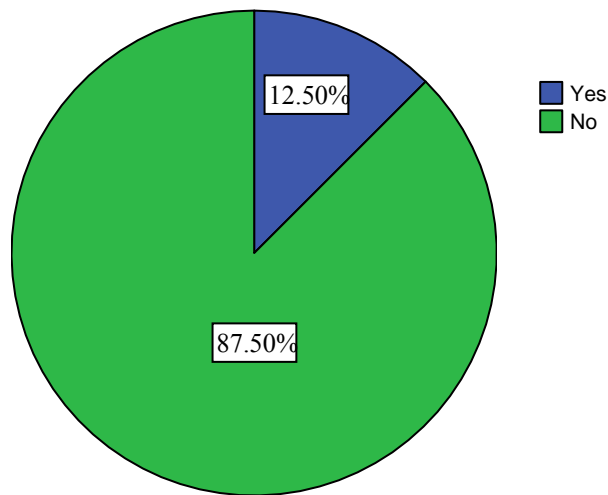
4.4.1 Proficiency of internal audit

Under this subsection its presented proficiency of internal audit in SRS government public sector offices.

4.4.1.1 Do the IA department is large enough to successfully carry out it

Results in below figure 4.3 shows that respondents were asked to level their agreement about the internal audit department large enough to successfully carry out their duties. 10(12.5%), of the total respondents were noted that internal audit department is large enough to successfully carry out their duties. The remaining 70(87.5%) were responded that their department are not large enough to successfully carry out its duties. additionally, during interviewing financial control support process owner were asked whether internal audit department is large enough to successfully carry out its duties they responded that internal audit department is not in able to carry out its duty. Therefore, from the result we can conclude that internal audit department is not large enough to successfully carry out their duties.

Figure 4.3 Do the IA Department is Large Enough to Successfully Carry out its duties?



Source: Survey results

In addition to the above result in figure 4.3 respondents were asked whether internal audit department has progressed in terms of numbers of staffs and qualified staffs.

Table 4.4 Do you Think that the Organization's IA department or divisions has Progressed in Terms of Numbers of Staffs and Qualified of staffs

Do you think that the organization's audit department or divisions has progressed in terms of numbers of staff		Frequency	Percent
Valid	Unnecessary number of staff	0	0
	Sufficient	0	0
	Not sufficient	76	95
	Medium	4	5
	Very low	0	0
	Almost no	0	0
	Total	80	100
Do you think that the organization's audit department or divisions has progressed in terms of Qualified of staff			
Valid	Highly qualified	1	2.5
	Qualified	24	60
	Medium	13	32.5
	Unqualified	2	5.0
	Total	40	100

Source: Survey results

As described in the table 4.4 respondents were asked the their organization audit department or divisions has progressed in terms of number of staffs and appropriately the qualification their staffs, regarding to the number of staffs 76 (95%) of the respondents assured the is no existence of sufficient staffs, whereas, 4 (5%) respondents said medium, in relation to the qualification of the staffs of audit department or divisions in their organization. 2 (2.5) % of the respondents assured progress of their audit division in terms of number of staff are highly qualified. Besides 48 (60%) respondents said their department has qualified staff. However, the other 26 (32.5%) respondents believed that their department is medium to appropriately qualified staffs. However, the remaining 4 (5%) believed that their department is unqualified staffs. Therefore we can conclude that more than 50% of respondents were said there is a lack of number of staffs but there is qualified staffs in their audit department. Therefore, finding revealed that internal audit department or divisions in the region has progressed in terms of number of staffs but the staffs are appropriately the qualified.

Finally, in addition to the above three questions, there were seven questions under proficiency of internal audit four questions out of seven questions respondents were agreed that were there is complete internal audit manual, Adequate short term training is arranged for internal auditors each year, internal audit has policies for training of internal audit staff, and Internal auditors possess sufficient experience to understand the organizations systems were their mean response is more than 4.00 and standard deviation of less than 1.

Table 4.5 Descriptive Statistics of Proficiency of Internal Audit

	N	Mean	Std. Deviation
Internal audit obtains a sufficient budget to successfully carry out its duties	80	1.48	.927
Internal auditors possess sufficient experience to understand the organizations systems	80	4.15	.797
internal audit staffs possess knowledge & skills in a variety of areas beyond accounting & finance as necessary	80	2.40	.739
internal audit has policies for training of internal audit staff	80	4.28	.811
internal auditors undertake continuous professional development activities	80	2.43	.868
Adequate short term training is arranged for internal auditors each year	80	4.50	.503
There is a complete internal audit manual to guide internal audit work	80	4.23	.968
Valid N (listwise)	80		

Source: Survey results

Note: N- number of respondents; response measurements.....5 – Strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1 – Strongly disagree

The two of the three remaining questions were a mean response of more than 2.00 and standard deviation of more than 1 which states internal audit staffs possess knowledge & skills in a variety of areas beyond accounting & finance as necessary and internal

auditors undertake continuous professional development activities. The remaining last question which states internal audit obtains a sufficient budget to successfully carry out its duties respondents were disagree and had mean response of 1.48 and standard deviation of 0.933. Also result revealed all responses have standard deviation of less than 1.00 which indicates that the respondents perception were close to one other.

According to ISPPA attribute standards No.1210 requires internal auditors should possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Accordingly the implication of the above table 4.5 result showed that there is complete internal audit manual in auditing department, adequate short term training is arranged for internal auditors each year, internal audit has policies for training of internal audit staff, and Internal auditors possess sufficient experience to understand the organizations systems. But there is lack of budget to the internal audit to successfully carry out its duties, internal audit staffs are not possess knowledge & skills in a variety of areas beyond accounting & finance as necessary and internal auditors do not undertake continuous professional development activities. This is in line with research conducted by Mihret and Yismaw, (2007), Fekadu, (2009), Mulugeta, (2008), Kedir et al., (2014), Alzeban and Sawan, (2013), Brierley et al. (2001), Onumah and Krah, (2012), Van Peurse (2004), Ali *et al.* (2004), and Junio-Sabio, (2013).

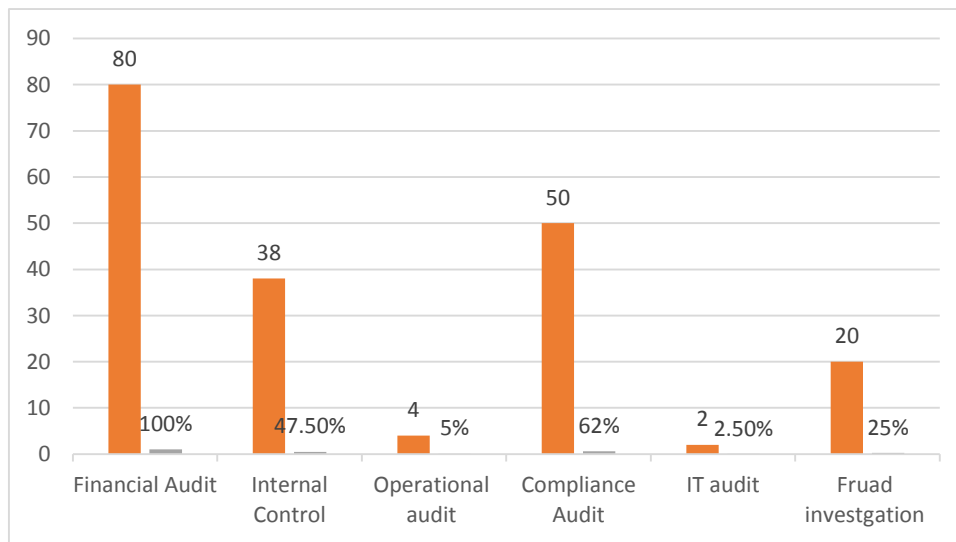
4.4.2 Scope of Internal Audit Work

As depicted in figure 4.4 shows that almost all 80(100%) of the respondents were responded that their audit scope included financial audit. 38 (47.5%) of respondents said that Internal control is involved the scope of their auditing activities. Also 4 (5%) of respondents responded that operational audit activities is included their audit scope. also 50 (62%) respondents said that compliance audit is among internal audit scope of their organization. Moreover, 2 (2.5%) IT Audit comprised scope of the internal audit in their organization. 20 (25%) respondents said fraud investigation were among their audit scope. Moreover, interview result from financial control support process owners indicated that the internal audit scope in the SRS government public sector is more of

financial audit and compliance audit while IT audit, operational audit is not include yet the scope of the internal audit in the region but they take first training on operational audit and future it will include scope of the internal audit in the region.

Generally it was found that financial audit and compliance audit is part of internal audit the scope of internal audit in the region, while internal control, operational audit, IT audit and fraud investigation are not included internal audit scope activities of the region. In addition to this interview responded revealed that internal auditor in the region were not taken operational audit training before but first operational training were taking during when researcher collecting data (March, 18, 2015). But according to ISPPIA performance standards No.2110.A1 requires that the internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities. This is in line with research conducted by Mulugeta, (2008), Kedir et al. (2014), Mihret and Yismaw, (2007), Alzeban and Sawan, (2013), and Onumah and Krah, (2012).

Figure 4.4 Scope of internal audit work



Source: Survey results

4.5 Reporting Follow-up and Quality Review

Under this title it presents reporting follow-up and quality review of internal audit.

Table 4.6 Descriptive Statistics of Reporting Follow-up and Quality Review of IA

Do the internal audit supervisor or manager supervises field work		Frequency	%
Valid	Yes	48	60.0
	No	32	40.0
	Total	80	100
Is an internal audit supervisor reviews internal audit working papers			
Valid	Yes	54	67.5
	No	26	32.5
	Total	80	100
Do the internal auditors follow up implementation of corrective actions relating to audit findings			
Valid	Yes	52	65
	No	28	35
	Total	80	100
Do the internal audit findings are discussed with auditees before being reported			
Valid	Yes	46	57.5
	No	34	42.5
	Total	80	100
Is there corrective action plan is agreed with management before the report is issued			
Valid	Yes	42	52.5
	No	38	47.5
	Total	80	100
is the management takes timely corrective action based on internal audit recommendations			
Valid	Yes	60	75.0
	No	20	25.0
	Total	80	100
Does internal auditing have a quality assurance program			
Valid	Yes	0	0
	No	80	100
	Total	80	100
Does it have a plan to undergo an external quality assessment every five years as required by the standards			
Valid	Yes	0	0
	No	80	100
	Total	80	100

Source: Survey results

According to ISPPIA performance standards No.2500 – monitoring progress requires that the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. Accordingly, as depicted on table

4.6, respondents were asked to judge whether the internal audit supervisor or manager supervises field work or not. The result was presented in Table 4.6, it shows 48 (60%) of the respondents said the internal audit supervisor or manager supervises field work, the remaining 32 (40%) respondents responded that internal audit supervisor or manager do not supervises field work.

Moreover, from table 4.6 also respondents were asked whether an internal audit supervisor reviews internal audit working papers or not. 54 (67.5%) of the respondents have responded that internal audit supervisors reviews internal audit working papers. while remaining 26 (32.5%) respondents said internal audit supervisors do not review internal audit working papers. Also from the above 4.6 table respondents also were asked whether the internal auditors follow up implementation of corrective actions relating to audit findings or not. As result revealed in the above table 4.6 it shows that 52 (65%) of respondents said the internal auditors follow up implementation of corrective actions relating to audit findings. Whereas the remaining 28 (35%) respondents said that internal auditors do not follow up implementation of corrective actions relating to audit finding. The respondents were also asked whether the internal audit findings are discussed with auditee before being reported or not. Out of total respondents 46 (57.5%) said that they are discuss with auditee to the audit findings before being reported, while 34 (42.5%) of respondents said that they are not discus with auditee any audit finding before being reported.

In addition, the respondents were asked whether there is corrective action plan is agreed with management before the report is issued. As shown in the above table 42 (52.5%) respondents said there is corrective action plan agreement with management before the report is issued, while 38 (47.5%) of the respondents said there is no corrective action plan agreement with management before the report is issued. Therefore, as it revealed in the finding more than 50% of respondents responded there is corrective action plan agreement with management before the report is issued. When the respondents asked is the management takes timely corrective action based on internal audit recommendations. Out of the total respondents 60 (75%) of the respondents responded

that the management takes timely corrective action based on internal audit recommendations, while remaining 20 (25%) respondents responded that the management do not take corrective action based on internal audit recommendations.

According to ISPPIA attribute standards No.1300 quality assurance and improvement program, this program is designed to enable an evaluation of the internal audit activity's conformance with the definition of internal auditing and the standards and an evaluation of whether internal auditors apply the code of ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. Accordingly, respondents were asked whether quality assurance program is available or not and fully 80(100%) they were responded that there is no quality assurance program in audit department in their organizations.

Moreover, interview result from financial control support process owners indicated that there is reporting follow-up but quality assurance program in auditing department is not available in the region.

Therefore, the implication of the above table 4.6 result indicated that there is reporting follow-up internal audit in the SRS, internal audit findings are discussed with auditees before being reported, corrective action plan is agreed with management before the report is issued and management takes timely corrective action based on internal audit recommendations but there is no quality assurance program. This is in line with research conducted by Fekadu, (2009), Kedir et al., (2014), Okibo & Kamau, (2012), and Sarens and Mohammad, (2011)

4.6 Audit Planning

Under this sub title it was presented and discussed audit planning relating data from questionnaires and interview results.

Table 4.7 Audit Planning

Is annual internal audit plan is prepared		Frequency	Percent
Valid	Yes	76	95.0
	No	4	5.0
	Total	80	100.0
Is risk assessment is done as part of audit planning			
Valid	Yes	6	7.5
	No	74	92.5
	Total	80	100
Is internal audit plan is based on your organization risk profile			
Valid	Yes	0	0
	No	80	100
	Total	80	100
Does internal auditing have a quality assurance program			
Valid	Yes		
	No	80	100
	Total	800	100
Does it have a plan to undergo an external quality assessment every five years as required by the standards			
Valid	Yes		
	No	80	100
	Total	800	100

Source: Survey results

According ISPPIA performance standards No. 2010 requires that the chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. As presented above table 4.7 respondents were asked whether annual internal audit plan is prepared. Out of the total respondents 76 (95%) respondents were responded annual internal audit plan is prepared, remaining 4 (5%) were responded annual internal audit plan is not prepared. Also Respondents were asked whether risk assessment is done as part of audit planning. Only 6 (7.5 %) respondents said risk assessment is done as part of audit planning, while almost 74 (92.5%) said risk assessment in not done as part of audit planning. Moreover, respondents were also asked whether internal audit plan is based on their organization

risk profile. All respondents 80 (100%) said internal audit plan is not based on their organization risk profile. Additionally interview result revealed that annual audit plan is prepared in their offices but respondents said internal audit plan is not based on risk profile of their offices.

From above result we can observe that annual internal audit plan is prepared, but risk assessment is not done as part of audit planning. Additionally, internal audit plan is not based on organizational risk profile of the region. Accordingly ISPPIA Performance Standards No 2010.A1 requires that the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process. This is in line with research conducted by Mihret and Yismaw, (2007),

4.7 Conclusions

The chapter has presented the results and discussions of the study along with the interpreting of the result of the study. In the first section, presents the results of the study that have been collected through different methods adopted, analyzed and interpreted the results followed by the presentation of conclusions on the chapter in the section two. The next chapter presents summary of finding, conclusions and recommendations.

Chapter Five

5. Summary of Findings, Conclusions and Recommendations

5.1 Introduction

The purpose of this chapter is to delineate the summary of findings, conclusion and some recommendations. Overall, this chapter is to depict chapter 1 to 4 collectively and to synthesize the contribution of this study through conclusion.

5.2 Summary of Findings

The objective of the study is to assess internal audit practice in SRS government public sector offices. Descriptive statistics analyses was used. Based on these, the research findings are summarized as follows.

The descriptive statistics showed that about 65% of survey respondents had bachelor degree, while 32.5% hold Diploma, and 2.5% had a Master Degree. In terms of work experience, majority 57% of the survey respondents had 1 to 3 years of work experience while 8% had 3 to 5 years of experience. The rest 35% had 5 to 10 years.

The questionnaire results showed that internal audit activities in SRS government public sector offices comply with the IIA's standards, authority of internal audit is clearly defined, and authority of internal audit is in line with standards for the professional practice formulated by IIA. But document defining internal audits purpose and authority is not fully approved by board of directors or audit committee.

From the results of descriptive statistic showed that there is lack of support to the internal audit unit from auditee and there is lack of management commitment to add value to the internal audit function. Additionally, result showed majority of the respondents 75% said that the extent the management and other organs support, understand and appreciate the role of internal audit function in good governance is low.

From the descriptive statistic results showed that internal audit assignment are not rotated periodically, internal audit is not free from intervention in performing its duties and internal auditors are not feel free to include any audit findings in their audit reports. Besides internal auditor provides reports to the board of directors or audit committee and the board of directors or audit committee oversees employment decisions in internal audit.

The descriptive statistics also indicates that there is complete internal audit manual in auditing department, adequate short term training is arranged for internal auditors each year, internal audit has policies for training of internal audit staff, and internal auditors possess sufficient experience to understand the organizations systems. But, there is lack of budget to the internal audit unit to successfully carry out its duties, internal audit staffs are not possess knowledge & skills in a variety of areas beyond accounting & finance as necessary and internal auditors do not undertake continuous professional development activities.

It was also found that almost all 100% of respondents noted that their audit scope included financial audit, 62% responded that their audit scope included compliance audit, also 47.5% said their audit scope included internal control while respondents said about their audit work scope included operational audit, and IT audit, and fraud investigation were 5%, 2.5%, 10% respectively.

It was also found that 67.5% of the respondents believed that internal audit supervisors reviews internal audit working papers. Whereas 65% of respondents said that the internal auditors follow up implementation of corrective actions relating to audit findings. Additionally 57.5% said that internal auditors discuss with auditees to the audit findings before being reported. Around 52.5% respondents said there is corrective action plan agreement with management before the report is issued. Also 75% of the respondents believed that the management takes timely corrective action based on internal audit recommendations but 100% of respondents noted there is no quality assurance program in audit department in their organization.

From the result of descriptive statistics 95% respondents believed that annual internal audit is prepared. While almost all of the respondents 92.5% said risk assessment is not done as part of audit planning. Moreover, almost all respondents 95% also believed internal audit plan is not based on their organizational risk profile.

5.3 Conclusion

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. It is varied by their function and purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals (MoFED, 2004). IA effectiveness does play a role in ensuring effective management in public sector (Enofe et al. 2013). Similarly, internal audit is considered as a value adding activity in contemporary organizations (AlTwaijry, Brierley & Gwilliam 2003; Bou-Raad 2000; Roth 2002; Yee et al. 2008). Moreover, internal audit function has a positive effect on the quality of financial reporting, on good government governance, and quality of financial reporting has a positive effect on good government governance Rahmatika, (2013).

The management support, the existence of adequate and competent IA staff, and the availability of approved IA charter contribute for the internal audit effectiveness in the public sector significantly and positively Hailemariam, (2014).

Although, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development. The general objective of this study was the examination of the internal audit practice in the Somali regional state public sector offices.

To achieve the above research objectives a mixed research approach was adopted. The main reason for used such approach is to alleviate the limitations of quantitative and qualitative research approaches and to gather data that could not be obtained by adopting a single method. Thus, the thesis used cross sectional survey on internal auditors in the SRS government public sectors with structured questionnaire, documentary analysis and in-depth interview with financial control support process owners (internal audit department heads). Also, results analysis, the responses obtained from survey of internal audit department staffs was tabulated and interpreted by using SPSS version 15.0 through descriptive statistics while result from documentary analysis and in-depth interviews with financial control support process owner was presented to support to descriptive statistics from survey result.

In selected government public sector offices internal auditing practice has been seen studied in terms of organizational policy authorizing internal audit, auditee cooperation, independence and objectivity of internal audit, scope of internal audit work, proficiency of internal audit, reporting follow-up and quality review, and audit planning. All staffs in the internal auditing department of selected SRS government public offices found to be organizational policy authorizing internal audit is in line with standards. But there is lack of cooperation from auditee to the internal audit department. Additionally study was found the extent of management and other organs support, understand and appreciate the role of internal audit function in good governance is low. In terms of independences and objectivity study was found internal audit is not free from intervention in performing it duties and internal auditors are not feel free to include any finding in to their audit report and there is a lack of internal audit assignment rotation in a periodically. But internal audit provides reports to the board of directors or audit committee and the board of directors or audit committee oversees employment decisions in internal audit.

The proficiency of internal audit in terms of educational background, qualification and experience. But the size of the IA staff is small, there is lack of budget to carry out beyond financial and compliance audits. And also there is no possess knowledge &

skills in a variety of areas beyond accounting & finance as necessary and internal auditors do not undertake continuous professional development activities.

The scope of the internal audit function did not yet go far to cover scope of internal audit and much time is devoted in performing financial and compliance audits.

Regarding reporting follow-up and quality review there is reporting follow-up but there is no quality review internal audit in the SRS. Also in relation to the audit planning study revealed that annual internal audit plan is prepared. But risk assessment is not done as part of audit planning. Additionally, internal audit plan is not based on organizational risk profile of the region.

5.4 Recommendations

This section provides some recommendations as a solution to mitigate the operational problems of internal audit practice in the SRS government public sector offices so that to improve internal audit effectiveness. Therefore, the researcher has tried to provide briefly the following recommendations:

- I. To increase the internal audit effectiveness in the SRS government public sector offices, auditee should support internal auditors in terms of full access to records and information they need in conducting audit services, give full cooperation and management of the government public sector should have commitment to add value to internal audit function. Furthermore, senior management government public sector should increase extent of management and other organs support, understand and appreciate the role of internal audit function in good governance.

- II. As the ISPPIA attribute standards 1100 requires the internal audit activity must be independent, and internal auditors must be objective in performing their work. But the study found that internal audit in the region is not free from intervention in performing its duties, internal auditors not feel free to include

any audit finding in their audit report, there is no internal audit assignment rotation in a periodically and also there is lack of budget to the internal audit unit to successfully carry out its duties. Therefore, internal audit activity must be independence and objectivity.

- III. In relation to the proficiency according ISPPIA attribute standards no. 1200 - proficiency and due professional care requires that engagements must be performed with proficiency and due professional care. Hence, training programs beyond accounting and finance, professional development to the internal audit staffs in the SRS government public sector offices should be developed and assigned resource they needed in performing their work to enhance the effectiveness of internal audits in the government sectors. Furthermore, as study finding revealed that financial audit and compliance audit is part of internal audit the scope of internal audit in the region, while internal control, operational audit, IT audit and fraud investigation are not included internal audit scope activities of the region. Therefore, the internal audit activity (internal audit unit) should be extended to the scope of internal audit defined by institute of internal auditors.
- IV. As required ISPPIA Attribute Standards no. 1300 – quality assurance and improvement program requires the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. But none of the respective government public sector offices 'audit department has quality assurance programs. Thus, CAE should be able to develop quality assurance programs.
- V. Finally, the internal audit staffs of the SRS government public sector offices also recommended to work in accordance with the internal audit standard formulated by MoFED and risk assessment should be done as part of audit planning and also internal audit plan should be based on their organizational risk profile.

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Appendix 1- Internal Auditors Survey Instrument

ADDIS ABABA UNIVERSITY
COLLAGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND
FINANCE (GRADUATE PROGRAM)

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

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

Thank You for Your Support

Instruction: following questions and statements is prepared as questionnaire for this research please indicate your answer by ticking (✓) the appropriate one from the options.

Part one: General information

1. Educational background

(1) MSC and above in accounting

(2) BA in accounting

(3) Diploma in accounting

(4) Below diploma in accounting

(5) Certified like CIA (Certified internal auditor), ACCA,

Other than accounting qualification: please specify_____

2. work experience as an internal auditor

1. 1- 3 years

2. Between 3-5 years

3. Between 5-10 years

4. Between 10-20 years

5. > 20 years

Part Two

Examining the internal audit practice

3. Do you have audit charter?

1. Yes 2. No

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

(1) Strongly disagree

(2) Disagree

(3) Neutral

(4) Agree

(5) Strongly Agree

5. Authority of internal audit is clearly defined.

(1) Strongly disagree

(2) Disagree

(3) Neutral

(4) Agree

(5) Strongly Agree

6. The authority of internal audit is in line with standards for the professional practice formulated by the institute of internal auditors.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

7. The document defining internal audits purpose and authority is approved by board of directors or audit committee.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

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

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

9. Internal auditors have full access to records and information they need in conducting audits.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

10. Internal auditors receive full cooperation from auditees

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

11. To what extent the management and other organs of the system support, understand and appreciate the role of internal audit function in good governance?

- (1) Very high (3) Medium (5) Very low
- (2) High (4) low

12. The management of your organization has a commitment to add value to the internal audit function?

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

13. Do you think internal department is large enough to successfully carry out its duties?

1. Yes 2. No

14. Which of the following represent the scope of work for internal audit in your organization?

(Please mark each boxes as much as it is applicable)

- (1) Verification of financial transaction (Financial audit)
- (2) Assessing and promoting the adequacy of corporate governance
- (3) Assessment of internal control
- (4) Evaluates projects/ programs accomplishments (effectiveness)
- (5) Operational audit
- (6) Compliance audit
- (7) Assessment of organizational risk
- (8) Fraud investigation
- (9) Information system audit

15. Do you think that the organization's audit department or divisions has progressed in terms of:-

a Number of staff

(1) Unnecessary number of staff

(2) Sufficient

(3) Not sufficient

(4) Medium

(5) Very low

(6) Almost no

b Appropriately qualified staff

(1) Highly
qualified

(2) Qualified

(3) Medium

(4) Unqualified

16. Internal audit obtains a sufficient budget to successfully carry out its duties.

- (1) Strongly disagree
- (2) disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

17. Internal auditors possess sufficient experience to understand the organizations systems.

- (1) Strongly disagree
- (2) disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

18. The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary.

- (1) Strongly disagree
- (2) disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

19. Internal audit has policies for training of internal audit staff.

- (1) Strongly disagree
- (2) disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

20. Internal auditors undertake continuous professional development activities.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly agree

21. Adequate short term training is arranged for internal auditors each year.

- (1) Strongly disagree
- (2) disagree
- (3) Neutral
- (4) Agree
- (5) Strongly agree

22. There is a complete internal audit manual to guide internal audit work.

- (1) Strongly Disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

23. Do you think internal audit is free from intervention in performing its duties?

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
-
-

- (4) Agree
- (5) Strongly Agree

24. Internal auditors feel free to include any audit findings in their audit reports?

- (1) Strongly Disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

25. Internal audit provides reports to the board of directors or audit committee?

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

26. The board of directors or audit committee oversees employment decisions in internal audit.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

27. Internal audit assignment are rotated periodically.

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly Agree

28. Do the internal audit supervisor (or manager) supervises field work?
1. Yes 2. No
29. Is an internal audit supervisor reviews internal audit working papers?
1. Yes 2. No
30. Do the audit findings are discussed with auditees (organization being auditing) before being reported?
1. Yes 2. No
31. Do the internal auditors follow up implementation of corrective actions relating to audit findings?
1. Yes 2. No
32. Is there Corrective action plan is agreed with management before the report is issued?
1. Yes 2. No
33. Is the Management takes timely corrective action based on internal audit recommendations?
1. Yes 2. No
34. Is annual internal audit plan is prepared?
1. Yes 2. No
35. Is risk assessment is done as part of audit planning?
1. Yes 2. No
36. Is internal audit plan is based on your organization's risk profile?
1. Yes 2. No
37. Does internal auditing have a quality assurance program?
1. Yes 2. No

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

1. Yes 2. No

Appendix 2- Financial Control Support Process Owner's In-Depth Interview instrument

INTERVIEW QUESTIONS

1. Do you have charter that defining all your responsibility and authority?
2. Is internal auditing sufficiently resourced to provide objective assurance on risk and control?
3. Do internal auditors get any cooperation from audittee?
4. To what extent management and other organs support, understand the role of internal audit function in the good governance?
5. Are your free from intervention in performing your duties?
6. To what extent internal audit scope in your office is performing?
7. Is internal audit department in your organization is large enough to successfully carry out its duties?
8. Is there reporting follow-up and quality review in auditing department in your organization?
9. Is internal audit annual audit plan is prepared in your organization?
10. Do you think that the organization's audit department or divisions has progressed in terms of number of qualified staff?

Appendix 3- International Standards for the Professional Practice of Internal Audit Standards

Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

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

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1100 – Independence and Objectivity

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

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

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

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

1130 – Impairment to Independence or Objectivity

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

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

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

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

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

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

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

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

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

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

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

1312 - External Assessments

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

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

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 – Managing the Internal Audit Activity

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

2010 – Planning

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

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

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

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

2030 – Resource Management

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

2040 – Policies and Procedures

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

2050 – Coordination

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

2060 – Reporting to Senior Management and the Board

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

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

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

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

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

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity’s governance, risk management, and control processes.

2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

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

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If

internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement’s objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

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

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

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

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2310 – Identifying Information

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

2320 – Analysis and Evaluation

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

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

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

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

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

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

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

2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors’ opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

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

2420 – Quality of Communications

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

2421 – Errors and Omissions

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

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement program support the statement.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

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

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;

- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

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

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

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

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

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

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

2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

