

ST. MARY'S UNIVERSITY
BUSINESS FACALITY
DEPARTEMENT OF ACCOUNTING

AN ASSESSMENT OF INTERNAL AUDIT PRACTICE
IN ADDIS ABABA WATER AND SEWERAGE AUTHORITY
(AAWSA)

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JUNE 2014
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**AN ASSESSMENT OF INTERNAL AUDIT PRACTICE
IN ADDIS ABABA WATER AND SEWERAGE AUTHORITY (AAWSA)**

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ACCOUNTING**

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Abbreviations

AAWSA	Addis Ababa Water and Sewerage Authority
AICPA	American Certified Public Accountant
BPR	Business Process Reengineering
CBE	Commercial Bank of Ethiopia
CC	Carbon Copy
EPHARG	Ethiopia Pharmaceuticals Manufacturing
GAAS	General Accepted Audit Standard
IIA	Institute of Internal Audit

STATEMENT OF DECLARATION

We ASHENAFI CHERE, RUTHASSEFA AND SIRGUT ANTENEH declare that this paper is original copy, is not copied any other similar papers, and also has not been presented to any institutions. Moreover, we duly acknowledged all the material used for the literature purpose.

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Signature

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SIRGUT ANTENEH

Date_____

STATEMENT OF CERTIFICATION

This is certify that ASHENAFI CHERE, RUTHASSEFA AND SIRGUT ANTENEH as prepared them senior essay. "INTERNAL AUDIT PRACTICE IN ADDIS ABABA WATER AND SWERAGE AUTHORITY" my supervision in my opinion this work is the original effort of the candidate and sustainable for the partial fulfillment for the requirements of the award of Bachelor Degree in Accounting.

Name of Advisor _____

Signature _____

Date _____

CHAPTER ONE

1. Introduction

1.1 Background of the study and the study area

The history of auditing started as man's awareness of the need to safeguard state and personal property that has been inferred from the records of a Mesopotamian civilization going back as early as 3500 BC. These records, involving financial transactions displayed various markings, which may be construed as a system of verification, internal controls and separation of duties. (Cecilia Nordin Van Gansberghe, 2003.). Ancient Rome employed the "hearing of accounts", where one official would compare his records with those of another, entails an application of both separation of duties and verification practice, hearing of accounts, which gave rise to the term "audit", from the Latin "Audire", to listen.

In the medieval period, Industrial Revolution in Europe, changed the role of auditing that went beyond hearing of accounts to include verification of accounting records and associated supporting documentation Since Second World War internal audit, has evolved rapidly from the primarily function, which is concerned with financial and accounting matters to the one that addresses the entire range of operation activities. Internal audit profession has advanced primarily as consequences of; the increase size and decentralization of organization, the greater complexity of their operations, and the resulting need for means of monitoring their numerous activities, various government organizations are expected to have an internal auditing function and an audit committee composed of non-management directors. (Irvinn Gliem, 2000)

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and the established criteria. It is an examination and verification of company's financial and accounting records and supporting documents by professional. Auditing used systematic manner to get and examine evidence regarding assertions about economic action and events to find out the level of correspondence between these stated fact and established standard and disseminating the result to the interested parties. In recent time each one is creating a history by itself which triggered agitation or disturbance over the role of auditors, the effectiveness and the purpose of internal control system in the organization.

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Institution of internal auditors/ IIA/ research foundation, 2004.). 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. Internal auditing is a catalyst for improving an organization's governance, risk management and management control by providing insight and recommendations based on analysis assessments of data and business processes (Arens Loebbecke 2000, 8th edition)

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 IIA 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 (IIA, 2010). Because functions and roles of internal auditing has been expanded, changed and shifted more to management oriented matters than accounting matters, reporting lines have also been transformed and currently in many countries internal audit reporting have also been transformed. Internal audit reporting lines ideally classified into administrative and functional, the chief audit executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization (Rolandas Rupsys, 2005.).

Professional practice of internal auditors, especially independence has always been a sensitive issue; with the intention to make auditors free from any threatening that hinder their ability of detecting misuses and frauds. Such threatening structures have been managed by dual-report. This paper has generally assessed the role and effectiveness as well as problems encountered to internal audit in Addis Ababa Water and Sewerage Authority (AAWSA), but ultimately, the internal audit function helps to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Organization resources are used efficiently and adequately safeguarded.

- Organizations operations are transacted in accordance with sufficient internal controls, good business judgment, and high ethical standards.
- Quality and continuous improvement are fostered in the organization's internal control processes.

When we come to the study area, Addis Ababa Water and Sewerage Authority were established through the proclamation no.68/1971 as Addis Ababa water and sewerage service authority in 1971. Then, it was reestablished again through the proclamation no.10/1995 as Addis Ababa water and sewerage authority in 1995. The authority has a vision of making Addis Ababa city as one of the first five African cities that have high quality in provision of pure water and modern sewerage service by the year of 2020. The organization also has established having a mission of supplying pure water to the city residents that balances with fast growth of Addis Ababa city and modern sewerage service in a suitable way by utilizing resources of water, spreading out of modern sewerage system and working by coordinating with stakeholders.

1.2. Statement of the Problem

Internal audit is perceived to assist management in ensuring that there is a proper internal control system in place and that makes operation of enterprises run in effective manner. It also helps the organization to achieve its intended objectives. It is clear that sufficient internal control help an organization to work efficiently and also support the organization to reduce the misuses like wastage of company's valuable resource.

However, internal audit is facing many challenges. some of the challenges in Internal audit are lack of expertise leading to trivial auditing findings, lack of opportunity for professional development, repetitive audit which staffs members can predict, being assigned to tasks such as accounting and pre-control of expenditures with the internal auditor subsequently have to audit (conflict of interest) , inability to insist on getting significant information because fears of losing promotion opportunities and job security, Lack of independence, and wrong perception of the audit function.

Therefore, the study is designed to assess the internal audit practice of AAWSA and it tries to identify related inefficiencies to the practice. In addition the researchers forward recommendation to the identified problem and inefficiencies.

1.3. Basic Research Questions

In Order to analyzes the internal auditing practice of AAWSA the following research question

- To what extent AAWSA internal audit implement and practices the accepted internal audit standards?
- How AAWSA internal audit section prevailed itself with adequate and competent audit professionals?
- What are the problems that impede effective achievement of internal audit and the attitudinal perceptions towards auditors in light of the relationship with other staff?
- What type of problem the internal audit bureau of the organization face that hinders its effectiveness?
- Did the internal auditors satisfied with the management response for audit findings?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is assessment of the internal audit practice of AAWSA.

1.4.2. Specific Objectives

In order to analyze the overall internal audit practice of AAWSA, the following specific objectives are identified.

- To evaluate the implementation, performance, and achievement of internal audit in AAWSA.
- To assess the adequacy and competency of professionals of AAWSA internal audit section.
- To assess the flow and trend of AAWSA internal audit report and the feedback of the report.
- To evaluate the relationship among AAWSA internal audit and other staffs of the authority i.e. to see the cooperation and coordination among auditors and among other staff of the authority.

- To identify what problems encounters AAWSA internal audit section those contributes to its ineffectiveness.

1.5. Significance of the Study

The major significances of the study are;

- It is helpful for the researcher to have experience of research work,
- in addition, the study will have greater significance for the management of AAWSA, if the management seriously takes the recommendation given by the researchers.
- It is also significant for external parties' especially external auditors to know how the internal audit practice of the authority is going on.
- on the other hand, it is also helpful for other researchers if they use it as reference material.

1.6. Scope and Delimitation of the Study

The scope of the study is limited to and place greater emphasis on assessment of the internal audit section activities of the authority. To do that, the study used both primary and secondary data's given by the authority employees.

1.7. Research Design and Methodology

1.7.1 Research Design

This study employed a case study design because it enables using flexible research approach by using multiple sources of data such as document review, interview, and questionnaires. In order to achieve the main research objectives a qualitative approach which is descriptive analysis is used and, of course, respondent's responses are also presented in terms of percentages.

1.7.2 Data collection methods

As it is supported by case study research design the study used primary and secondary data. The primary data's are collected through distribution of questionnaire and conducting interview, and the secondary data are obtained from reviewing books, internet, and from AAWSA published and unpublished reports and manual.

1.7.3 Population and sampling techniques

The questioners are distributed to different department employees of the authority. Since number of internal auditors of the authority working as auditors are 10 which is manageable, questioner is distributed for all of them. Then, using purposive sampling technique 4 questioners are distributed to finance, purchasing, information system, and property management departments. On the other hand, an intense interview is conducted with the internal audit section manager of the authority.

1.7.4 Analysis methodology

Just after gathering required data's from primary and secondary data sources descriptive data analysis techniques are employed to draw insight about the data. Simple statistical measures such as percentage, tables and pie chart are also used. Then based on those statistical information's, the authority internal audit practices are presented and interpreted.

1.8 Limitation of the Study

Even though the scope of the study is limited to assess the internal audit practice of a single authority, the researchers pass through a number of constraints such as time constraint, inability to access all the required data.

1.9. Definition of Terms

AAWSA	Addis Ababa Water and Sewerage Authority
IIA	Institute of Internal Audit
AICPA	American Certified Public Accountant
GAAS	General Accepted Audit Standard

CHAPTER TWO

2. LITRATURE REVIEW

2.1. Definition and Theoretical Frame Work

2.1.1. Internal Control and Internal Auditing

The Institute of Internal Auditors defines internal control as: “*Internal control is a process, affected by an entity’s board of directors, managements and other personnel, designed to provide reasonable assurance regarding the following primary corporate objectives*”:

- *The reliability of financial report*
- *The efficiency and effectiveness of operation*
- *Compliance with the applicable laws and regulations*
- *The accomplishment of established goals and objectives*

Internal audit is one of the internal control systems used by most organization. The Institute of Internal Auditors (IIA) defines internal auditing as: “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.”

Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls.

When an organization establish its planning and then proceed to implement its plan in terms of operations, it must do something to monitor the operations to ensure the achievement of its established objectives.

This further effort can be thought of as controls. While internal audit function itself one of the type of controls used, there is a wide range of other controls. The special role of internal audit is to help measure and evaluate those other controls. Thus, internal auditors must understand both their own role and the nature and scope of other types of controls in the organization (Robert M, 2005).

2.1.2 Types of Audit

Internal audit can be divided into the following categories based on the audit technique or objective.

2.1.2.1 Performance audit or Operational audit

Which assesses whether the activity, program or body has been managed economically and/or efficiently and/or effectively? It embraces:

- Audit of economy of administrative activities in accordance with sound administrative principles and practices, and management policies,
- Audit of the efficiency of utilization of human, financial, and other resources, and information systems, performance measures and monitoring arrangements, and procedures followed by Audited entities for remedying identified deficiencies.
- Audit of effectiveness of performance in relation to the achievement of the objectives of the Audited entity and audit of actual impact of activities compared to intended impact.

Performance Audit is intended to be a broad, constructive examination and diagnosis of the policies, organization and operation of the audited entity. It calls for appraisals of an organization to compare accomplishments with plan, results with standards and practices with policy. The objective is to arrive at dispassionate and verifiable bases for comparing what is being done with the plans, policies, and standards and most imperfectly to understand the reasons for positive or negative variance from those plans, policies and standards (ArensLoebbecke 2000 8th edition). The auditor's role is to examine and report on how well that responsibility has been discharged and suggest cost-effective improvement as necessary.

Performance audit falls into four broad categories according to ArensLoebbecke 2000 8th edition:

- **Selective investigations:** These are carried out in cases where there are signs of possible serious waste, extravagance, inefficiency, ineffectiveness or weakness in control. The investigations are confined to examining whether criticism is justified, examining causes and considering action taken or needed to introduce improvements.
- **Major broad-based investigations:** These kinds of investigations focus on the whole audited body or of important activities or programs. These may serve to give assurance in

major areas where arrangements are found to be satisfactory and no criticism is justified, as well as to draw attention to material weaknesses in control or achievement and their consequences.

- **Major examinations of standard managerial operations:** These tend to follow common patterns or procedures or established good practice. Here, the audit office selects an audit area, such smaller scale, unplanned investigations: These types of investigations are directed towards producing useful improvements in value for money in specific projects or activities. These may help strengthening systems and fostering cost-consciousness.
- As cash management, Construction, procurement, etc.; and audits the issue across all of major departments involved in the activity. These are sometimes called 'sect oral' audits.

2.1.2.2. Financial or Accounting Audit

This evaluates the accuracy of the accounting and related procedures and practices. It assesses the accuracy and completeness of the financial statements of the activity, program or body being audited; and/or evaluates whether the transactions underlying the financial statements are legal and regular. However, according to the definition of internal auditing, internal auditors are mainly evaluating the system of internal control. Therefore internal auditors' primary interest is not the accounting as such, but rather the controls which ensures the quality of accounting information and financial reporting (Arens L, 2000 8th edition).

2.1.2.3. Compliance Audit

Which evaluates the how well the organization conforms and adherences with relevant policies, plan, procedures, laws, regulations, and contracts. Usually all audits include the compliance element, because the auditor uses the laws, policies and regulations as a yardstick to measure the performance of the organization. Therefore these guidelines do not contain separate section for compliance audit, but the aspect is included in all audit instructions later in these guidelines (Kamal G, 1996).

2.1.2.4. Fraud and Financial Irregularity Audit

This type of audit is generally designed to be conducted at the occurrences and suspicion of the existence of fraud, irregularities misappropriations, thefts and the like incidences. It will be carried out at the request of the enterprises management officials or other concerned body to identify and expose its existence and the magnitude of damage it causes (AAWSA BPR study proposal, 2007/8).

2.1.2.5. Control System Audit

This is an audit of the adequacy and application of established control system by the Enterprise to protect and safeguard its Assets from loss of any kind. This Audit is sometimes carried out in association with financial audit and other times on its own (AAWSA BPR study proposal, 2007/8).

2.1.2.6. Follow up Audit

It is an audit designed to evaluate the effectiveness of corrective actions. It is the process by which auditors determine the adequacy, effectiveness and timeliness of corrective actions taken by management on reported audit findings. Auditors are expected to conduct this type of audit to verify that logical and appropriate corrective measures have been taken on previous audit findings as per their recommendations. This audit shall be conducted after the issuance and distribution of final report, and include only the deficiency reported in the final report. It is the system of audit that can reduce the future incidences of audit findings and gradually leads to the entire achievements of efficient and effective auditing and operational system within the enterprise. This type of audit also enables auditors to bring unresolved issues to the attentions of the management group for discussion periodically and its timely resolution. The nature and timing and extent of follow up activities should take in to account the significance of report findings such as nature or magnitudes of associated risks and costs. Agreed up on outcomes relating to high risk issues should be followed up on soon after the due date for action and may be monitored progressively. (AAWSA BPR study proposal, 2007/8)

2.1.3 Function and Roles of Internal Audit

The primary role of internal audit is to provide assurance about financial and non-financial information and mechanism for control. It also reviews and appraises the soundness adequacy and accounting financial and other operating activities and recommending effective control and ascertaining the extent of compliance with established policies, laws and procedures. In order to do it in professional and independent manner, internal audit unit should be kept distinct other functional engaged in analyzing and reporting performance. The other functional group is primarily concerned day to day maintenance of the internal control for data processing. Whereas the internal auditors are interested in evaluating the overall efficiency of data processing operation and effectiveness of internal control (Bogg and Devies, 1980).

2.1.3.1 Internal Audit Role in Control

According to Bogg and Devies, 1980 control is any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Internal auditors are employees of the organization, but they apply the same procedures, rules and standards as external auditors. Internal audit represents a management tool for the review of internal control systems, especially the reliability, efficiency and effectiveness of accounting and data base systems. Internal audit is often called "management audit" or "audit of the rational use of funds", because it helps management determine shortcomings within internal operations, prevents embezzlement, financial and other fraud, theft, and evasion. Internal audit should be properly planned, controlled, recorded and reviewed.

The role of internal auditors expanded to encompass overall operational policies and producers. Companies in the defense industry were among the first to demand such services. These companies recognized the need for the reliable operating reports which were used extensively by management to make decision. The reports often were expressed not in dollars, but in the terms of operating factors, such as quantity of parts in short supply, adherence to schedules, quality of the product. Work by the internal auditor's devoted ensuring dependability of these operating

reports was better spent than additional audit effort devoted to financial and accounting matter. (Whittington & Pany).

2.1.3.2. Internal Audit Role in Risk Management

Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Internal auditing has core role with regard to enterprise risk management. It provides objective assurance to the board on the effectiveness of an organization's risk management activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.

The internal audit activity must 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 and programs, Safeguarding of assets and compliance with laws, regulations, policies, procedures, and contracts.

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks. (Bogg and Devies, 1980).

Management should carefully consider the factors that affect the risk that the organization objectives will not be achieved when considering the financial reporting objective; these risks include the threats to preparing financial statements in accordance with GAAP. (Whittington & Pany).

2.1.4. Audit Standard

As Arens Loebbecke (2000) indicates, the American Institute of Certified Public Accountant (AICPA) has the mandate to set audit standards and rules. Audit standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. AICPA in 1947 develop 10 general accepted audit standards /GAAS/. These standards categorized under three categories.

These are:

General standard – Related to the character and competence of auditors

- The audit is to be performed by a person or a person's having adequate technical training and sufficiency as an auditor
- In all matters relating to the assignment an independency in mental attitude is to be maintained by the auditor or the auditors
- Due professional care is to be exercised in the performance of the examination and the preparation of the report

Standard of field work- related to the process of gathering and evaluating evidences a basis for opinion

- The work to be adequately planned and properly supervised.
- A sufficient understanding of the internal control structure.
- Sufficient competent evidential matter is to be obtained through inspection, observation inquires and confirm action to afford a reasonable based for an opinion regarding the financial statement under examination.

Standard of reporting-guide the auditor in preparing the audit report

- The report shall state weather the financial statements are presented in accordance with GAAP.
- The report shall identify these circumstances in which principles have not been consistently observed in the current period in relation to the preceding period.

- Informative disclosure in the financial statement are to be regarded as reasonable, adequate unless otherwise stated in the report.
- The report shall either contain an opinion regarding the financial statement taken as a whole or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed the means therefore should be stated.

2.1.5. Internal Audit Report

As Arens Loebbecke (2000) indicates, immediate action should be taken on major, critical risks and such risks should be reported as soon as they become apparent. Verbal communication during the audit should be used in order to keep the auditors aware of development of the audit, and any minor issues should be dealt with immediately. If they warrant a mention in the final audit report, it may be done with reference to them having already been settled. In some cases a written interim memorandum may be issued, especially if the audit takes a long time and there are issues which should be referred to the responsible management for immediate action. The final audit report has to be presented in writing and signed by the responsible auditor. Before the final report is issued, the findings and recommendations should be discussed with the auditors in a closing conference. This is to avoid any misunderstanding and mistakes in the report and to agree on the timing for the implementation of recommendations.

2.1.6. Principles and Rules of Conduct

As Kemal Gupta (1996) fundamentals of auditing, explains various rules of conduct for auditing.

2.1.6.1. Integrity Objectivity and Independence

2.1.6.1.1. Integrity

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

- Perform work with honesty, diligence, and responsibility;
- Observe the law and make disclosures expected by the law and the profession;

- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization;
- Respect and contribute to the legitimate and ethical objectives of the organization.

2.1.6.1.2. Objectivity

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

2.1.6.1.3. Independence

An auditor should be free of any such interest in the enterprise under audit as may affect his integrity or objectivity.

2.1.6.1.4. Confidentiality

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

- be prudent in the use and protection of information acquired in the course of their duties;
- not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization

2.2 Empirical Literature Review

The study reviewed four different empirical papers related to internal audit practices in the case of Ethiopian public enterprises, commercial bank of Ethiopia, and Ethiopia Pharmaceuticals manufacturing SH. Co (EPHARGH).

Bereket, Daniel and Mukerem (2013) study the internal audit practice of commercial bank of Ethiopia. In addition they try to evaluate whether professional skill assisted by modern technology is required to perform internal audit. Finally, Bereket, Daniel and Mukerem conclude that the senior management and internal audit department of CBE has smooth relation and also they arrived in a conclusion that corporation internal audit department employees have sufficient skill and good qualification. On the other hand, because of the CBE appropriateness in policies

and procedure, they conclude that there is enough independency of internal auditors from the management.

Arefayne and Yohannes (2010) study the internal control system of Ethiopia Pharmaceuticals manufacturing SH. Co (EPHARGH). They conclude that internal control review period is appropriate but the management involvement and the reviewing process of Ethiopia Pharmaceuticals manufacturing SH .Co (EPHARGH) is less sufficient. in addition, the risk assessment practice of the (EPHARH) is that the utilization system software indicate that the firm uses preventive method.

Finally, Samuel Mulugeta (2008) makes a study on internal audit practices of Ethiopian public enterprises. According to Samuel Mulugeta (2008) the research uses both stratified and random sampling method like our study. then Samuel Mulugeta conclude that internal audit is one of the key cornerstones of effective good corporate governance by providing assurance on the risk management, control, and governance process with in an organization. As recommended by Samuel Mulugeta (2008) internal audit staffs in public enterprises have to be strengthened in size and quality so as to strengthen the quality of internal audit. In addition to that, internal auditors should function together at the national level and should maintain and develop their profession.

CHAPTER THREE

3. DATA ANALYSIS AND PRESENTATION

3.1. Characteristics of the study population

3.1.1. Background Question

For this particular research there were two data collection techniques of were employed, namely, primary data like distribution of questioners to those who are working in AAWSA as an internal auditors, chief internal audit department, other related departments and undertaking interview with the management body as well as the process owner of internal audit department of AAWSA also secondary data obtained through a review of relevant documents in the organization where the study was conducted.

No of Questioner	No of interview	Internal Auditors	Other Department	Collected	Not collected
14	1	10	4	15	-

Note: The No of respondents

(Survey of respondents)

We used both qualitative and quantitative approach to make the study feasible.

The paper analyzed through descriptive data analysis method and using table and pie chart.

		Frequency	Percentage (%)
Educational status	Certificate	-	0
	Diploma	-	0
	Degree and above	14	100
	Total	14	100
Work experience in auditing	1-3years	1	7.14
	3-5 years	2	14.28
	5-10 years	5	35.71
	10-20 years	3	21.42
	>20	3	21.42
	Total	14	100

Table 3.1: Background of Respondents

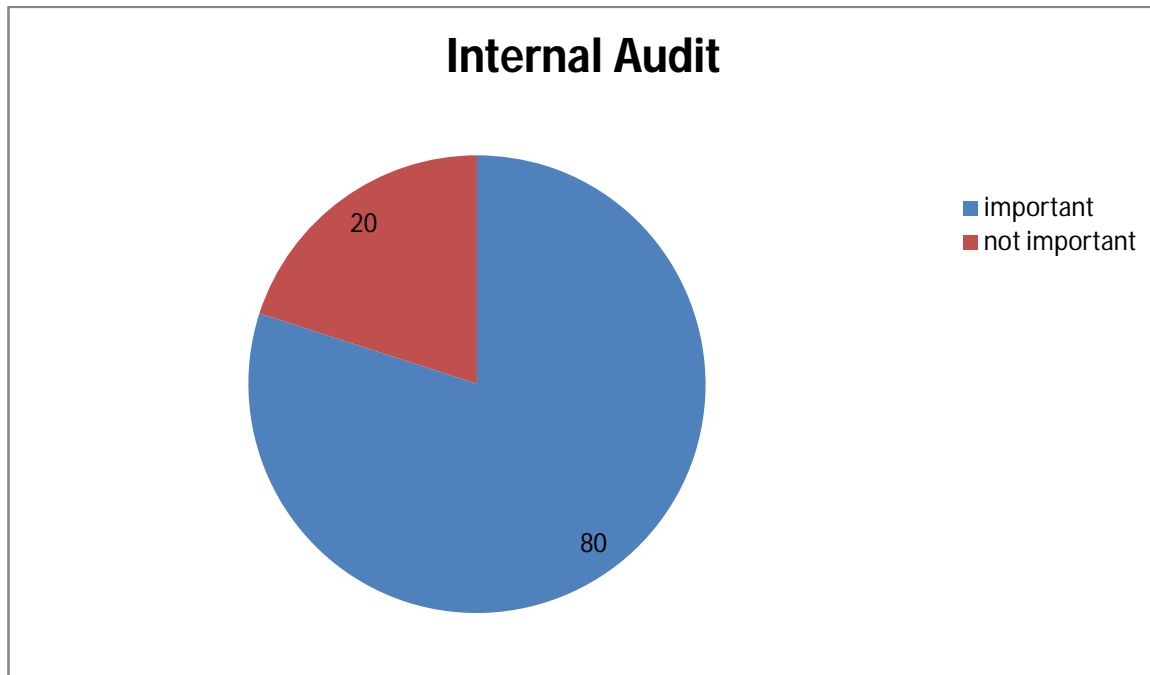
Source: Survey response of Questioner

From the above table we can understand that 100% of the respondents have degree and above education statuses. In addition to this 78.57% of the respondents have above 5 years working experience. From this table we can conclude that the education level and work experience of the organization employees are good enough to accomplish their responsibilities professionally.

3.2 Analysis of the findings of the study

3.2.1 The Importance of Internal Audit in Effective and Efficient Utilization of Resources

Internal audit gives feedback about how an organization utilizes its available resources and how the organizations perform its activities. Respondents were asked the extent and degree of internal audit importance to improve the effective and efficient utilization of company resources.



Source: -Survey response of Questioner

From the above chart we can analyze that most respondents agree the internal audit is important for their authority while some of them disagree.

3.2.2 The Implementation, Performance and Achievement of AAWSA Internal Audit

Effective implementation of internal audit play a vital role in strengthening the internal control system of an authority particularly in the struggle of decreasing wastage, misuse of the authority resource, and corruption. It is clear that the absence of well-structured and properly implemented internal audit practices in any organization will cause difficulty in achieving its intended organizational objectives.

The respondents' suggestions and comments shows that internal audit in AAWSA is scarcely led by and implement internal audit standards. Limitedness in human resource in terms of quantity like luck of data and carelessness in storing data are other problems which challenge the internal

audit. These are some of the problems that take the lion's share in the ill implementation of the AAWSA internal auditing.

As discussed above one of the main problems of AAWSA internal audit practice is the violation of the principles of IIA standard of the internal audit. For example IIA standard, about the principle of independence and objective, states that an internal audit should be free from organizational influence. Internal audit must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities (IIA, 2008). But according to the respondents the internal audit section is dependent both functionally and structurally.

Functionally, it performs according to intention and decision of the top management and the performance appraisal of the section are evaluated by the top management. And structurally the section is structured under the top management and it reports accordingly. However as we understand from the interview the organization is trying to implement IIA standard.

The second problem is that the section is centrally organized at the head office and is staffed with a few employees. Due to its organizational structure and staff limitation, the section covers a few areas of audited. Despite the fact that auditors of the internal audit are a few, it's from the head office that the auditors visit the branch for auditing. It seems somewhat unlikely to think to make an internal audit effective that a company working primarily in projects, but employing only financial auditors. In fact, the internal audit had never been able to audit any performance of a project of the authority and it can never be effective and feasible, even if it desire to do so. It is unlikely to the internal audit to achieve its objects and unable to detect misuses, inefficient, and corruption.

According to the interview with the audit staff manager the auditors are limited in number. They indicated that these professionals are fewer than necessary. The researchers were amused to hear that there are only eleven (11) auditors and an auditors' chief, in the authority, who are centralized at the head office. For an authority mobilizing the biggest transaction and budget in Addis Ababa (more than 3billion ETB) with eight (8) branches, the head office and one big project center performing only with eleven (11) professionals is irrational. Despite the above problems centralization of audit staff is also problem to follow and control branches and projects nearly.

When the auditors move for the auditing purpose to the different branches of the authority there are problems that hinders the auditing activity for e.g. there is transportation problem which is occurred because of the authority inadequate vehicles supply also in the branches offices there are trouble in finding suitable condition and the right place for the auditing occupation.

As the field auditing needs more skilled and expertise employees there must be training which helps the staff to update their knowledge but there is a problem in training the teams.

The AAWSA internal audit submits its report to the top management of the authority. The report flow of the internal audit indicates that it reports to the top management of the authority who are the evaluators of the performance appraisal of the auditors but there is a delaines of the report.

Respondents have showed that the above problems have contributed to the ineffectiveness of the internal audit. In addition the respondents indicated that the performance and achievement of the internal audit is extremely limited and didn't conform to the strategy, plan, and objective of the authority. According to respondents the achievement of the internal audit compared to its objective is not that much good. Due to this reason the audit practice in AAWSA is not implemented effectively and the performance of achieving the organization goal is unsatisfied.

3.2.3. The scope of internal audit practice in AAWSA

The internal audit function's scope of operations is by its very nature quite expansive. The internal audit function assists AAWSA in fulfilling its vision, mission, strategic initiatives, and objectives, while adhering to its core values, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of enterprise-wide risk management, internal control systems, and governance processes.

Internal Audit scope	Yes		No	
	No of respondents	%	No of respondents	%
Verification of financial transaction	7	70	3	30
Assessing and promoting the adequacy of corporate governance	3	30	7	70
Assessment of internal control	6	60	4	40
Evaluate projects/program accomplishments	5	50	5	50
Operational Audit	6	60	4	40
Compliance audit	6	60	4	40
Assessment of organizational risk	4	40	6	60
Fraud investigation	7	70	3	30
Information system audit	3	30	7	70

Table 3.3: Representing the scope of internal audit practice

From the above table we can understand that the authority implies most of the scopes but there are some scopes which are not implemented that much like information system audit.

3.2.4. The Role and Function of Internal Audit of AAWSA

The primary role of internal audit is to give assurance about financial and non-financial information and mechanism for control. It also reviews and appraises the soundness, adequacy, and application of financial accounting and other operating activities and recommending effective control and ascertains the extent of compliance with established policies, procedures, law and regulation. In order to do it in a professional and independent fashion, internal audit unit should be kept distinct from other functional engaged in analyzing and reporting performance. The other functional group is primarily concerned with day-to-day maintenance of the internal control for data processing. Whereas the internal auditors are interested in evaluating the overall

efficiency of data processing operation and the effectiveness of the internal controls (Boggy and Davies, 1980, 3).

The AAWSA internal auditors carries out its functions, as defined above, by looking into how a selection of the transactions have been processed and also, indeed primarily, by assessing how well the systems and procedures of internal control function. In practice, the AAWSA internal audit cover two main types of activity — financial audit and performance audit, in the interview the manager try to explain that the authority mainly exercise the above two audits in addition to operational, compliance and computerized audits are primal activities.

3.2.5. The Level of Independence of Internal Audit

The data of respondents about in *table 3.5* reveals that 7(70%) disagree and 3 (30%) of the respondents agree on the independence of the internal audit. 9 (75%) of the respondents believe that the internal audit is influenced by organizational structure and report flow only, but 3 (25%) of the respondents did not believe and 2 respondents are indifference. On the other hands the manager brief as that internal auditors are independent that the organization works on post audit than pre audit to insure the auditor's independence. The general idea compiled from most of the respondents has indicated that the dependence of the internal audit of AAWSA is doubtful because most auditors and also other employees which related to the internal auditors didn't believe the existence of independence on their organization but as we understand from the interview the manager insure as that there is independence.

This is because the report flow, organizational structure, and hierarchy relation etc. of the internal audit and the authority makes the internal audit dependently functioning.

The organizational structure of the internal audit is structured as a supportive process in the BPR. When one sees the hierarchical structure, the top management is above the internal audit section. Everything about the staff of internal audit is evaluated through the top management. For example promotion and demotion of auditors is approved by the top management (General Manager).

S. No	Measurements of level of independence	Agree		Disagree		Indifference	
		No.	%	No.	%	No.	%
1	The environment which internal audit operate is conducive to promote independence	2	20	8	80	–	–
2	Auditors perform their duty independently	4	28.57	7	50	3	21.43

Table 3.5: Level of Internal Auditors' Independency

From table 3.5 we can analyze that independence of AAWSA internal auditors is more dependent.

3.2.6. Internal Audit Report of AAWSA

The interview showed that the internal audit section reports its finding based reports and recommendations to the General Manager. Reporting and recommending is one channel of communication which internal auditors submit a report to CC to the General Manager. A follow up audit for the action taken by the General Manager is sometimes conducted. If no or insufficient correction action is taken by the general manager, they take another measure announcing the General Manager. This is for the insignificant finding and believed innocent mistakes.

The other channel which auditors based on their findings report and recommend is to the General Manager. For significant and intentional wrong doings and misuses, the internal audit report to the General Manager. In addition periodic reports which summarize main audit findings and recommendations as well as audit reports on the result of special investigation and enquiries are submitted.

Respondents replied that the top management sometimes neglects to respond to internal audit report in taking corrective action on time. This in turn hinders auditors to take follow up audit to check whether the corrective action was properly responded by the General Manager. Also there is a problem from the General Manager side, on taking corrective action recommended by the internal audit and by the top management.

According to respondents the increase and decrease in internal audit scope brings an increase or decrease in quality of reporting this means internal audit scope and the quality of reporting have direct relationship.

S. No	Measurement of reporting line	Agree		Disagree	
		No.	%	No.	%
1	The existing situations encourages an issue of report related problems	4	40	6	60
2	Current reporting line promote internal audit to discharge its role in the authority	6	60	4	40
3	The reporting relationship create conflict of interest with the management	3	30	7	70

Table 3.6: Reporting line May 2014

From the above table we can understand that the current reporting line of AAWSA is not more concerned with reported related problems but as most of the respondents agree the reporting line promote internal audit to discharge its role in the authority. On the other hand the reporting creates good relationship with the management.

3.2.7. The Competence and Qualification of Audit Staff of the Internal Audit

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. A quality assurance and improvement 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 (IIA, 2008).

As we understand from the interview AAWSA internal audit department do have skilled man power, the auditors are experienced and they fulfill their responsibilities.

In addition to the limited number of auditors in the authority, internal auditors try to enhance their knowledge, skills, and other competencies through continuing professional development. This is due to lack of access from the authority and lack of commitment from the auditors

3.2.8. Coordination and Cooperation among Internal Audit Staff Themselves and with Other Staff

Most of the respondents suggested that there is a good relationship among audit staff of the authority themselves. They have explained that a rapport relationship is created among auditors of the authority with small plus minus differences.

From the respondents from other departments the internal audit department helps them and the organization in different aspects. In addition to this as respondents from different department says that they help the internal audit department in different ways for example they provide documents when it is needed to verification & checking also by giving the necessary information and document to help auditors to get any investigation about audit report etc,

Also from the interview the manager tries to explain how they work coordinately with other departments and also IA department itself helps other departments.

	Coordination and corporation of IA with other department	Agree		Disagree	
		No.	%	No.	%
1	IA practice helps the organization	3	75	1	25
2	IA practice helps other department	4	100	–	–
3	Other department help the IA	4	100	–	–

Table 3.8: Coordination and corporation of IA with other department

In table 3.8 we can see that how much AAWSA IA department and other departments have good relation and how they are coordinated and corporate.

3.2.9. Another Problems of AAWSA Internal Audit Practice

According to the data analyzed there are some problems of AAWSA's internal audit practice that affect the effectiveness of internal auditing. The main and repeatedly raised problems which are out of those that already have discussed above can be compiled as; effectiveness and quality of their services.

Conceptual misunderstanding: Most of the time auditee portrays auditors as fault finders rather than assistant to them in dealing with their business risk areas and helping to be effective in their operational responsibilities. They ignore their valuable recommendations and /or the best method they provide for resolving the audit findings.

Failure to act timely upon audit findings: Respondents pointed out that, sometimes audit findings were neglected by the top managements. This kind of disregarding accumulates minor corrective measures to be resolved timely tends to lead in to a complex issue. At the same time it creates a big disappointment among some auditors and a negative effect on their job.

Lack of consistent and standardized auditing programs: Usually the deliverables of audit reports lack to address every potential risk areas adequately in their auditing processes. There for auditors s are expected to develop a work discipline that can broaden chance of accessibility to all risk areas, increase their proficiency, quality of their services and shall improve the effectiveness of control system, risk management and governance.

Lack of Data and Data arrangement: Because of shortage in man power and lack of maintenance in the logistic there is a problem in data order also sometimes there is lack of data which is the problem of the reporting delayed.

CHAPTER FOUR

4. Summery Conclusion and Recommendation

In this section of the paper the researchers going to mention the major findings that were clearly discussed in chapter three. Keeping this major finding in mind, the conclusion and recommendation for the paper is given accordingly.

4.1. Summery

Different information and data collected from the questionnaires and interviews presented using tables, percentages and pie chart. As a finding of the analysis some results observed. And we summarized it as follows.

- As the researchers see from the previous part 100% of the respondents have degree and above education statuses. In addition to this 78.57% of the respondents have above 5 years working experience.
- Almost all respondents' suggestions and comments shows that internal audit in AAWSA is hardly led by and implement internal audit standards.
- As finding indicates most respondents' i.e.70% of them disagree about the independence of internal auditors of their organization.
- As we understand that the current reporting line of AAWSA is not more concerned with reported related problems but as most of the respondents agree the reporting line promote internal audit to discharge its role in the authority and also there is less conflict of interest between with the management.
- 100% of the respondents agree that the internal audit works coordinately with other staffs and they work in corporation within them self.

4.2. Conclusions

Having discussed the procedures, practices, and mandates of AAWSA internal audit, we have summarized the conclusion as follows.

- Firstly, it was found that AAWSA implemented its internal audit poorly and violating the principles of internal audit standards (IIA Standards). It was especially found highly dominated by the authority top management. These conditions in turn threatened the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- Secondly, we can arrive to a conclusion that there is carelessness in storing data which results hindering the internal audit activities.
- Thirdly, according to the findings, the top management was found delaying and ignoring in taking corrective action according to auditors' finding and recommendation.
- Fourthly, according to the finding that AAWSA internal audit department had skilled man power but as the organization had broad responsibilities with 8 branches, 10 internal auditors are not good enough to implement its objectives as it is required.
- Lastly, the researchers found that AAWSA internal audit encountered problems other than those discussed through the findings. The problems are conceptual misunderstanding about the internal audit objective and role, top management failure to act timely upon audit findings, auditors' lack of consistent and standardized auditing programs.

4.3. Recommendation

Based on the conclusions listed above, the researchers have recommended as follows:

- ❖ Firstly, taking the advantage of already created awareness about the importance of internal audit for the effective internal control, the conceptual misunderstanding about auditors should be solved.
- ❖ Secondly, internal audit of AAWSA should be led according to the principles of internal audit standards. The internal audit should enjoy independence and free from conditions that threaten its ability in performing its responsibilities in unbiased manner.
- ❖ Thirdly, corrective action should be taken at all levels on time based on the internal audit findings and recommendations. Follow up should also be focused upon the corrective action taken either by the top management or the internal audit, and follow up audit is mandatory.
- ❖ Fourthly, AAWSA internal audit should strive to fulfill the IIA standard of proficiency requests. It should recruit competent auditors and should help its auditors develop and maintain their skill, knowledge, and expertise to meet internal audit requirements.
- ❖ Fifthly as the authority mainly focuses on project construction, the internal audit should be staffed from different disciplines such as engineering, economics, law, and IT supervisor etc to meet audit responsibilities of all types. At last, the section should solve the problem of limitation in number of staff along with the problem of organizational structure. The internal audit should be decentralized to all branches and the project office. At last, the authority and the section altogether should solve the problem that impedes the cooperation and coordination among the auditors and other staff of the authority.
- ❖ At last, AAWSA internal audit should dedicate to; firstly, correct the conceptual misunderstanding of other staffs of the authority about the internal audit objective and role. Secondly, the top management should act timely upon audit findings. Thirdly, the internal audit section should follow up and control its auditors for consistent and

standardized auditing programs. And finally, both the authority and the section jointly should introduce internal audit code of ethics.

APPENDIX
ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTEMENT OF ACCOUNTING
A Questionnaire prepared for AAWSA Employees

This questionnaire is designed by St Marys' University accounting department graduating class students for the partial fulfillment of bachelor art degree in accounting. The questioner is intends to assess the internal auditing practice in AAWSA and all information given in this questionnaire will prepared for academic purpose only:

Part One: Back Ground Question

1. Your position in the organization_____

2. Educational background

MSC and above in accounting/Marketing

BA in accounting/Marketing

Diploma in accounting/Marketing

Below diploma in accounting/Marketing

Certified like CIA (Certified internal auditor), ACCA

Other than accounting qualification: please specify_____

3. Your work experience

1- 3 years

Between 3-5 years

Between 5-10 years

Between 10-20 years

> 20 years

Part Two: Subject Area Question

1. Did your organization have internal audit practice?

Yes

No

2. Did your department help the internal audit practice of your organization?

Yes

No

If “Yes”, how?

If “No”, why?

3. Do you believe that the internal audit practice of your organization is useful for your department?

Believe

Indifference

Not believe

4. Do you agree that the internal audit practice is effectively encouraging the organization to achieve its goal?

Agree

Disagree

If you “Agree” or “Disagree”, please specify your answer

5. What do you think about the role of internal audit towards reliability of the financial information?

6. What is the impact of AAWSA internal audit practice on your department activities?

7. While the audit function performs its duty, do you believe that the auditors are independent?

Believe

Indifference

Not believe

8. If you have any additional information as to the internal audit practice of your organization please tell as in the following space

Thank You

A Questionnaire prepared for AAWSA Employees

This questionnaire is designed by St Marys' University accounting department graduating class students for the partial fulfillment of bachelor art degree in accounting. The questioner intends to assess the internal auditing practice in AAWSA and all information given in this questionnaire will prepared for academic purpose only:

Part One: Background Information

1. Your position in the organization _____

2. Educational background

MSC and above in accounting

BA in accounting

Diploma in accounting

Below diploma in accounting

Certified like CIA (Certified internal auditor), ACCA, other _____

Other than accounting qualification: please specify _____

3. Your work experience

1- 3 years

Between 3-5 years

Between 5-10 years

Between 10-20 years

> 20 years

Part Two: Question on internal audit practice of AAWSA

1. Did your organization have internal audit practice?

Yes

No

2. Why the internal audit practice exists in your organization? It is due to

It's importance to the organization

It's mandatory by the government policy/law/

Other, please specify _____

3. Do you believe that the existing internal audit practice of your organization is achieving its objective?

Believe

Indifference

Not believe

If your answer is not believe why? Please specify

4. What are the major challenges observed so far in the internal audit practice in your organization?

5. What is your perception about the implementation of Internal Audit section in your organization by comparing with the authority's objective?

6. To what extent the board members are interested to support the internal audit practice to bring about good governance?

Very high Medium Very low

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

Very high Medium Very low

8. How do you evaluate the importance of Internal Audit for the achievement of efficient and effective resource utilization of the government?

Very important Not Important

9. Do you believe that an increase or decrease in internal audit scope brings an increase or decrease in the quality of reporting respectively?

Believe

Indifference

Not believe

If your answer is no, please specify

10. Which of the following represent the scope of internal audit practice in your organization?

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

- | | |
|--|--------------------------|
| Verification of financial transaction (Financial audit) | <input type="checkbox"/> |
| Assessing and promoting the adequacy of corporate governance | <input type="checkbox"/> |
| Assessment of internal control | <input type="checkbox"/> |
| Evaluates projects/ programs accomplishments (effectiveness) | <input type="checkbox"/> |
| Operational audit | <input type="checkbox"/> |
| Compliance audit | <input type="checkbox"/> |
| Assessment of organizational risk | <input type="checkbox"/> |
| Fraud investigation | <input type="checkbox"/> |
| Information system audit | <input type="checkbox"/> |

Other areas if any, please specify _____

11. Do you think that the organization's audit department or divisions has

Progressed in terms of:-

i. Number of staff

Yes

No

ii. Internal audit activities

Yes

No

12. To whom the internal audit department reports its findings?

Board of directors

General Manger

President

Finance Department Head

Audit Committee

Other, please specify _____

13. Dose the existing situation encourages an issue of reporting related problem?

Yes

No

Don't Know

14. What are the risks arising as a result of the current reporting line in your organization?

15. Do you agree that the environment in which the internal audit operates is conducive to promote independence in your organization?

Agree

Disagree

Explain the reason for your agreement?

16. While the audit function performs its duty, do you believe that the auditors are independent?

Believe

Indifference

Not believe

If your answer is not believe, why? Please specify your reason

17. Do you believe that the current reporting line of internal audit functions in your organization promotes internal audit to discharge its role in the authority?

Agree

Disagree

If "agree" how

If "disagree" why?

18. Do you agree that the current reporting relationship create conflict of interest with the management?

Agree

Disagree

If "agree" in what way?

What do you suggest to solve this conflict of interest (if any)?

19. If you have any additional information as to the internal audit practice of your organization please tell as in the following space

Thank You

Interview

1. To what extent AAWSA internal audit implement and practices the accepted internal audit standards?
2. How AAWSA internal audit section prevailed itself with adequate and competent audit professionals?
3. What are the problems that impede effective achievement of internal audit and the attitudinal perceptions towards auditors in light of the relationship with other staff?
4. What type of problem the internal audit bureau of the organization face that hinders its effectiveness?
5. Did the internal auditors satisfied with the management response for audit findings?
6. What is the scope of internal audit in AAWSA?
7. What is the Role and Function of Internal Audit of AAWSA?
8. To whom does internal audit section reports its finding based reports and recommendations
9. How do you express the Coordination and Cooperation among Internal Audit Staff Themselves and Other Staff?
10. What do you think about the competence and qualification of audit staff of internal audit?
11. What is your perception about the implementation of Internal Audit section in your organization by comparing with the authority's objective?

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