



SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF INTERNAL AUDIT PRACTICE: A
STUDY ON SELECTED ETHIOPIAN PUBLIC ENTERPRISE**

BY:
BINIYAM ABATE

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STUDY ON SELECTED ETHIOPIAN PUBLIC ENTERPRISE**

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BY:

BINIYAM ABATE

ADVISOR:

ZINEGNAW ABIY (PHD)

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BY:

BINIYAM ABATE

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

signature

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Advisor

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signature

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Internal Examiner

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signature

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External Examiner

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signature

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List of Acronyms and Abbreviations

AC	Audit Committee
AICPA	American Institute of Certified Public Accountants
BOD	Board of Directors
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CPA	Certified public accountants
COSO	Committee of Sponsoring Organization of the Tread way Commission
CRSA	Control Risk Self-Assessment
CSA	Control Self-Assessment
CSRP	Civil Service Reform program
EC	European Commission
ECIIA	European Confederation of Institution of Internal auditors
ERM	enterprise risk management
ERM-IF	Enterprise-wide Risk management-Integrated Framework
GAO	General Accounting office Auditors
IAF	Internal Audit Function
IARF	Internal Audit Research Foundation
IC-IF	Internal Control-Integrated Framework
IIA	Institute of Internal Auditor
IRM	Institute of Risk Management
IRS	Internal revenue services
MSA	Management Self-Assessment
OECD	Organization for Economic Cooperation and Development
PPESA	Privatization and Public Enterprise Supersizing Agency
SOX	Sarbanes Oxley Act
SPPIA	Standards for Professional Practice of Internal Auditors
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
US	United States of America
WTO	World Trade Organization

Abstract

The main purpose of this study is to assess the internal audit practices of selected Ethiopia public enterprise. The researcher used proportionate stratified sampling and selected 8 public enterprises from total of 46 populations size that are expected to represent all other public enterprises. Descriptive type of research design was used and the data were collected from managers and internal auditors by using questionnaires and document review. A sample of 56 respondents was selected purposively and given questionnaires 48 of them have properly filled and returned. Data was analyzed using statistical package for social scientist windows software. In addition, the finding of this study is to show the risk management process, the internal audit practice in the organization, the management perception for internal audit effectiveness, structures and activities of internal audit function and the internal audit functions in control models, and risk assessment methods were significant and important for internal audit practices and risk assessment on public enterprise. Results also showed that many public enterprises management were involved in the internal audit and other internal control staff in the risk assessment process, and few enterprises management was not involved. Therefore managements should be given high attention to the organization by involving in the internal audit and other internal control staff in the risk assessment process and should be uses their skill to identifying, evaluating, and controlling risks to achieving the enterprise goals and objective.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Several forces have led to a quiet revolution in internal audit. The internal audit activities changed from traditional activities to value adding activities. Democracy requires government to be accountable in its use of public money and in providing effective, efficient, and economical service delivery. Ever larger and more complex systems require greater competencies, thus internal audit has had to become ever more professional. (Cecilia2003).

Flesher (2006) suggests that, although the modern work of the internal auditor involves acting at times as a management consultant and auditing for efficiency and effectiveness as much as for financial propriety, such activity has not always been among the internal auditor's duties. The profession of internal auditing has changed considerably over the past half century. Flesher (2006) point out, before 1941, internal auditing was essentially a clerical function with no organization and no particular standards of conduct. The internal auditing function was essentially an arm of the accounting function. Because much of the record-keeping at that time was performed manually, auditors were needed to check the accounting work after it was completed in order to locate errors in posting and footings.

Justin (2006) said that manual processing also made fraud easier. Combining the need for uncovering errors and misappropriations resulted in the internal auditor being little more than a verifier. Today, the internal auditor is accepted as an integral part of the management team. A look at the evolution of internal auditing provides a perspective

on the function of internal auditing in today's world; a function that includes not only financial auditing, but also audit of the management information system, operational audit, compliance audit, special projects, IT Audit, fraud investigation, risk assessment and others.

As per Sergio and Saverio(2008) risk assessment is a significant part of internal audit planning. As a systematic process for the identification and analysis of relevant risks threatening the achievement of an entity's objectives, risk assessment is helpful for assessing and integrating professional judgments about probable adverse conditions and/or events. The process of risk assessment includes identification of auditable activities, identification of relevant risk factors, and determination of their relative significance. Goodwin-Stewart and Kent (2006) stated that internal auditors can add value to the entity by providing assurance that its risk exposures are properly understood and managed. Internal audit should play a key role in monitoring a company's risk profile and identifying areas to improve risk management processes.

In businesses worldwide, the internal audit function is becoming very important for achieving the objectives of organizations. In recent years, Ethiopia has recognized the importance of the internal audit function, which that function has been established in all public companies. Therefore, the Ethiopian public companies internal audit functions were deals about the assessing good governance condition, control effectiveness and risk management performance.

Mohammed, (2011) suggests that, the government of Ethiopia as part of its development strategy to stop various corrupted officials and other criminal activities; it is becoming obvious that addressing the problems of economic crime is vital. Due to this, issuing ProclamationNo.68/1997 and the issuance of internal audit procedure

manual for the public sector backs the relevance of IAF. Moreover, the issuance of Proclamation No. 235/2001 to establish the Federal Ethics and Anti-Corruption Commission and the implementation of the Civil service reform plan are clear indicators of government's concern to embed good governance system in the public sector of Ethiopia.

Generally, the research assessed the internal auditing practices activities on the selected public enterprises by using self-administered questionnaire distributed to senior internal auditors and audit department managers and reviewed some documents.

1.2 Statement of the problem

According to Flesher (2006), the internal audit activity should monitor and evaluate the effectiveness of the organizations risk management system. It is increasingly recognized that the internal audit function needs to add value to the organization by closely aligning itself with the major concerns of senior management and focusing on the issues that are critical to success. In addition to the above point, internal audit actively seeks management support with resources, commitment to promote and communicate their added value. But in some public enterprise the internal audit activities are not more supported and audit finding and recommendations would not serve much purposely unless management is committed to implement them (Addisu,2014).

In general, public sector managers do not deal effectively with uncertainty. Namee (2009:11) states as follows: "The common characteristics of the public sector are mismanagement, incompetence, or ignorance about risk management, and managers are in most cases politicians who don't necessarily have the managerial skills." In case of

public enterprise companies are concerned about this matter, and some managers who are not skilled in identifying, evaluating, and controlling risks.

The internal audit literature (Hussein Abdi Mohamud, 2013; Umor, 2009 ; Karagiorgos et al, 2007; Fadzil et al, 2006) indicates that the internal audit function to risk assessment have vital contribution for the accomplishment of organizational objectives. Thus, effective internal audit practices have a positive effect on risk assessment of the organization. Internal auditors usually assist management in ensuring that there is a proper internal control system in place and the enterprise is operated in effective and efficient manner. Moreover, adequate internal control can expose the enterprise to various identifiable risks; such as waste of enterprise available resource, fraud by employees and lack of control over asset. By not having adequate internal auditing activities, the enterprise will loss substantial amount of resource and have been difficult to achieve its intended objectives.

Furthermore, in the research internal audit and risk assessment in Ethiopian public enterprises, Mohammed, (2011) concluded that many Ethiopian public enterprises were introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process.

Office of the federal auditor general Ethiopia, (2016) in their case study report on Ethiopian public enterprises, the internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal

audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors .

With regard to this, the researcher is attempting to assess internal audit practice, Specifically, how internal audit practice in the public enterprise, management's perception for internal audit effectiveness, the role of internal audit function in risk management, the internal audit functions in control models and risk assessment methods influence on risk assessment, in the public enterprise are assessed.

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 (2015), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors too many tasks and being ignored (conflict of interest) and lack of professional development. Because of the challenges of internal audit practice in Ethiopia public enterprise, it increases the importance of the research in the area. In addition, it further being aware and give insight how they are efficiently utilizes the internal audit service for the governing bodies, process owners of such enterprise and audit committee of public enterprise.

The main reason for this research is internal audit practice and risk assessment in Ethiopian public enterprise which is conducted by (Mohammed, 2011). His finding showed that many Ethiopian public enterprise were introduced formal risk assessment in their internal audit function ,and few enterprise were on the way to introduce formal risk assessment process. Hence, for internal audit functions those were not incorporated control risk self-assessment, it is better to incorporate for effective risk assessment. This is only on four sector of public enterprises namely financial, manufacturing, merchandize and service sector. And the researcher wants to conduct this research on

five sectors by including construction sector in addition to the above sectors. Moreover, the previous research was tried to assess four factors: the role of internal audit function in risk management, the internal audit functions in control models and risk assessment as well as methods influence on risk assessment. But not assessed management perception for internal audit effectiveness. Here under this research, the researcher assessed management perception of internal auditing practice on selected Ethiopian public enterprise mainly in Addis Ababa city in addition to the four factors assessed by this researcher. Therefore, my research filled this gap.

1.3 Objective of the study

1.3.1 General objective of the Study

The general objective of the study assessed internal audit practices in selected Ethiopia public enterprises.

1.3.2 Specific objectives of the study

In addition to the general objective of the study, the researcher set the following specific objectives for the study:-

- To evaluate the structural activities of internal audit function.
- To assess the roles of internal audit function in the risk management.
- To assess the management perception for internal audit effectiveness in the public enterprises.
- To examine the role of internal audit functions in control models and risk assessment methods.

1.4 Scope and limitation of the study

It will be good if the research can be conducted on all public enterprises throughout the country. But due to the financial and time constraint, the coverage is limited only to Addis Ababa city.

The research limited to 8 public enterprises in which selected based on their business type. Namely; construction sector, finance sector, manufacturing sector, merchandise sector and service sector.

The researcher is attempting to assess how internal audit practice in the public enterprise, management's perception for internal audit effectiveness, the role of internal audit function in risk management, the internal audit functions in control models and risk assessment methods influence on risk assessment, in the public enterprise.

1.5 Significance of the study

Internal auditors support government in realizing utmost fidelity and prudent use of public resources as well as bringing improvements in operations which cultivate trust among those who have a stake and the citizens. Furthermore, this study is of great importance to public policymakers in Ethiopia as it provides knowledge on internal audit practice in the public enterprise and formulates policies that would enhance effectiveness of internal audit practice in public enterprise. The study findings provide a basis for policy development that would improve internal auditing practices and help in detecting and reporting frauds in financial management and avoid misappropriation and loss of public funds.

The research work is also of significance to the management or head of department of various agencies that support public enterprises and would enable them gain insight on

challenges that affect performance of internal auditors. This would enable them formulate strategies that would improve effective internal control system and enhance internal auditors performance in public enterprise.

This research serves as an excellent reference material to persons who would like to carry out research related to this area and forms a basis for future research on internal audit practice in public enterprises as the form of foundation for further research. The study is significant to scholars and researchers as the study contributes to existing body of knowledge on internal audit practice assessment in selected Ethiopian public enterprise.

1.6 Organization of the study

This research report dividing into five chapters: Chapter one deals with the introduction of the study which includes background of the study, statement of problems, objective of the study, limitation and scope of the study, and significance of the study. Chapter two presented the literature review regarding the research area on effect of internal audit practice and therefore sets out the theoretical foundations for the research. Chapter three was researches Methodology of the study. Chapter four reports the analysis and interpretation of the data. In the chapter five discussed with summary of the study findings and conclusions of the study and also presented suggestions for further research are given.

CHAPTER TWO

LITRATURE REVIEW

2.1 Introduction

The discussion on the issue of internal auditing has increased significantly in recent years; this shows the relevance of internal auditing in organizational governance. Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart & Kent 2006). In this chapter, the researcher tried to discuss: Basic Concepts of Auditing, types of auditing, internal audit function and structure and activities, audit department size, Risk Management, Risk Management process, control models, risk assessment, , risk- based auditing, governance frame works, Summary the main points.

2.2 Basic Concepts of Auditing

Concepts are abstractions derived from experience and observation and are designed to aid understanding of the similarities with in a subject matter and the difference from other subject materials. Much like engineering, physics, economics, and sociology and other physical and social sciences, auditing is based up on a series of fundamental concepts. The importance of auditing concept is that they are the basis for standards, the guidelines or measures of quality from which audit procedures are derived. Together, therefore auditing concepts, standards and procedures are related (Larry , 1999). Auditing is the content of Diabetics and scientology is an activity where a person trend in auditing listens and gives auditing, commands to a subject, which

scientology refers to as “peculiar” critics of auditing have suggested it has similarity with cult style programming and some behavior modification techniques which result psychological manipulation of the subject, Auditing involves the use of processes which are sets of questions asked or directions given by an auditor. Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent independent person (Arens, 1997).

2.3 Types of Audits and Auditors

2.3.1 Types of Audits Performed by Internal Auditors

2.3.1.1 Financial Audits:

These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources. (Bethlehem, 2009)

2.3.1.2 Operations Audits:

These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization’s mission and objectives. (Bethlehem, 2009)

2.3.1.3 Compliance Audits:

These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations. (Bethlehem, 2009)

2.3.1.4 Information Systems Audits:

These audits review the internal control environment of automated information processing systems and how people use those systems. The audits typically evaluate systems inputs/outputs, processing controls, backup and recovery plans, system security, and computer facility reviews. (Spencer, 2005)

2.3.1.5 Internal Control Reviews:

These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting. (Spencer, 2005)

2.3.1.6 Investigative /fraud audits:

This type of audits is done to examine incidents of possible fraud or misappropriation of funds. (Spencer, 2005)

2.3.2 Types of Auditors

The four most widely known types of auditors are (Arens, 1997)

General Accounting office (GAO) Auditors: - the United States (US) is a non-partisan agency in the legislative branch of the federal government. The GAO which is headed by the comptroller general, report is responsible solely to congress. Many of the GAO's audit responsibilities are the same as those of certified public accountants (CPA). Much of financial information prepared by various government agencies is audited by the GAO before it is submitted to congress. In many states, experience as GAO auditors the experience requirement for becoming CPA.

Internal revenue agents: - the internal revenue service's (IRS) under the direction of the commissioner of internal revenue, has as its responsibility the enforcement of the federal tax laws as they have been defined by congress and interpreted by the courts. A major responsibility of IRS is to audit the returns of tax payers to determine whether they have complied with tax laws. The auditors who perform these examinations are referred to as internal revenue agents.

Internal auditors: - internal auditors are employed by individual companies to audit for management much as the GAO does for congress. The internal audit group in some legal firm can include over a hundred persons and typically report directly to the president, another high executive officer or even the audit committee of board of directors. Internal auditor's responsibilities vary considerably, depending on the employer some internal audit staff consist of only one or two employees who may spend most of their time doing routine compliance auditing.

Certified public accountant (CPA):- CPA firm have as their primary responsibility the performance of audit function on published financial statement of all publicly traded companies, most other responsibly large companies and many small companies and non-commercial organization. The use of the title certified public accountant (CPA) is regulated by state law through the licensing department of each state.

2.4 Internal Auditing

An independent appraisal function established within an organization. Internal auditing is control function that exists by examining and evaluating the adequacy and effectiveness of other control. The institution of internal auditor (IIA, 2008) defines the internal auditing as an independent appraisal activity established within an organization to examine and evaluate its activities as service to the organization. This definition explains that internal auditors (profession of internal auditing) has being done the

extent and nature of assignment performed and the action taken by the managements as result internal audit report. This is the activities within the organization and internal auditors must have in departmental in mental attitude to world the appraisal of internal auditor.

2.4.1 The structure of internal audit function

The structure of internal audit function widely differs among different organizations. In some organizations IAF have chief audit officer who is member of senior management, but in some other organizations IAF is as part of finance and accounting function. On the other hand it may be out-sourced or combined with other assurance functions and the structure of internal audit function affects its overall activities, which, intends to operate (spencer 2003).

As per (Mat 2006) when the audit committee is involved in key decisions such as the replacement of the chief internal auditor, there will be greater empowerment of the internal function. In other words, management influence over the internal audit function decreases and consequently internal auditors would feel more confident in undertaking audit investigations, particularly when dealing with more sensitive issues that may involve senior management. Thus structure of internal audit function can be affected by; enacted regulations, company structure, age of an organization, organizational status, activity it intends to perform and others.

2.4.2 The activities of internal audit function

Activities of internal audit function differ among organizations depending on the size of an organization, the level of development of professional activities within a given country, corporate governance frame work, and others. (Mohammed2011). Nagy and Cenker (2002) stated that internal audit changed through time from traditional activities

to consulting and value added service. The change is due to management expectation not from the profession is self.

Țurlea and Ștefănescu (2009) approach the internal audit in terms of its essential role and the support granted to the managing board, “in order to handle the internal control”. This opinion consolidates the role of the internal audit, which is to ensure the quality of the existing internal controls, the manner they are applied, the correctness and effectiveness of the implemented strategy, giving courage and confidence to the internal audit. To sum up activities of internal audit function different among organizations depending on different attributes, through time changed from traditional activities to consulting and value added service. (Mohammed, 2011)

2.4.3 Audit department size

Audit department size is measured by the number of employees assigned to internal audit function or the amount of budget allocated to this function (Mohammed, 2011). Carey et al (2006) stated that the size of the organization often determines the extent and frequency of its activities. A transaction cost perspective suggests that the larger a company, the greater the opportunity to gain economies of scale from in-housed facilities. Smaller companies are less likely to establish an internal audit department in the absence of economies of scale (i.e. resources and capital to fund the internal audit department).

The IAF plays an important role in providing the board of directors with information to assess managers’ effectiveness in using owners’ resources. Agency theory suggests that the more information asymmetry between management and shareholders, the greater the need for monitoring, thus the larger the relative size of the IAF. Relatively more staff in the company (as a proportion of total staff) whose major responsibility is

actively monitoring the company (Sarens and Abdolmohammadi, 2011). Therefore the size of internal audit function depends on the size of the organization and the activity it performs, the larger companies have in-house facilities for internal audit purpose (Mohammed, 2011)

2.4.4 Scope of internal audit function

In contrast to external audit which mainly focuses on assessing historic financial data, internal audit function encompasses the adequacy and effectiveness of governance, risk management and internal control processes in identifying and responding to all the risks facing the organization (ECIIA, 2005). Internal audit department 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. Organizations with rigid regulatory requirements in an industry where scandals are common may find that compliance reviews are the best way to add value to the business. Enterprises in rapid growth sectors where speed in delivering new products is the key to success may find that consulting advice on controlling programs and projects may be the most appropriate value add proposition (Spencer 2010). Woods and Humphrey (2008) list out some of the tasks that have been found to fall within the contemporary scope of internal audit:

- Audit of risk management processes across the full breadth of an organization
- Supporting and training staff in the area of risk identification, assessment and monitoring
- Drafting of a risk-based audit plan, this focuses on the key risks identified by senior management.

- Drafting and co-ordination of the risk management reports submitted to both the Audit Committee and the Board of Directors
- providing a commentary on the effectiveness of actions taken by management to address control weaknesses identified by internal audit
- Communicating good practice in risk management. To sum up the scope of internal audit varies among organization depending on the environment in which the organization operate. (Mohammed, 2011)

2.5 Risk Management

Recent years have seen heightened concern and focus on risk management, as a result of series of business scandals and failures where investors, company personnel and other stakeholders suffered tremendous loss. This resulted in the publication of books, journals, articles and a series of government documents that draw attention to the need for better risk management and how to set up a risk management system. The Sarbanes-Oxley Act in the US, the Basel II Capital Accord and the revised Combined Code (2003) in the UK are all examples of governance reforms with the intention of minimizing the risk of future major corporate failures through tighter regulation of internal control systems.(Holt, 2006)

According to (Dorfman 2007) risk management is the logical development and implementation of a plan to deal with potential losses. It is important for an organization to put in place risk management programs so as to manage its exposure to risks as well as protect its assets. The essence is to prepare ahead of time on how to control and finance losses before they occur. Dorfman continues to say that risk management is a strategy of pre-loss planning for pre-loss resources. Risk management is: “a process of understanding and managing the risks that the entity is inevitably

subject to in attempting to achieve its corporate objectives. For management purposes, risks are usually divided into categories such as operational, financial, legal compliance, information and personnel. One example of an integrated solution to risk management is enterprise risk management” (CIMA, 2005).

2.5.1 The Risk Management Process

The method used for identifying and assessing risk will differ according to the type of organization. The process involves these basic steps: understanding the mission of the organization, performance of risk assessment to identify the risks associated with the mission, categorizing and prioritizing the risks, design processes, training and checks (controls) for top level risks, monitoring internal control effectiveness and making improvements as required and repetition of the steps(IRM,2007).

Understanding the mission of the organization is the first step to effective risk management. It is important that an organization clearly articulates its mission. In this way, risks associated with the mission can be easily identified. The next step is to start listing the risks. These risks could be categorized into human error, fraud, system or process weakness or problems and soon. Once the risks are listed, the company must then proceed to prioritizing these risks. It is unlikely that a company would be able to address all the risks listed; therefore it would be important that a company identifies high priority risks and focuses on them first. This leads to creating internal control systems that complies with Section 404 of the Sarbanes Oxley Act. Even though this act is meant for companies in the United States; it purports to protect big and public listed companies all over the world (Holt, 2006).

Companies must identify and mitigate high priority risks first and then continue to review, prioritize and address the rest of the risks according to the needs of the organization (IRM et al., 2007). The risk management team, risk manager or internal control committee could rank the risks as risk 1, risk 2, high-level risks, medium-level risk, low-level risk, et cetera. The idea is to first attend to all risks with the greatest probability of occurrence and greatest loss. However, the number of risks addressed at a time depends on the size and ability of the entity. The next step is to find the best way of mitigating these risks. A well-defined process is then used to minimize the risks and then communicated to all personnel at all levels of the organization through procedures, policies, instruction and training. Finally, these processes should be monitored on regular basis to make sure that they are functional and effective. Corrections are then made as and when necessary. This is because it provides barriers against an accumulation of exposures inherent in ongoing business activities (Chorafas, 2008).

2.5.2 The role of internal audit in enterprise risk management

Internal auditing is an independent, objective assurance and consulting activity. Its core role with regard to enterprise risk management is to provide objective assurance to the board on the effectiveness of risk management. Research has indeed shown that internal audit provides value to the organization in that this function gives objective assurance that the major business risks are managed appropriately and provides assurance that the risk management and internal control framework operates effectively (IIA, 2008). However, internal auditing should not fulfill the following roles:

- Setting the risk appetite;
- Imposing risk management processes;
- Management assurance on risks;

- Taking decisions on risk responses;
- Implementing risk responses on management's behalf; and
- Accountability for risk management. The IIA emphasizes that organizations should fully understand that management remains responsible for risk management. Internal auditors should provide advice, and challenge or support management's decisions on risk, as opposed to making risk management decisions. The nature of internal auditing responsibilities should be documented in the audit charter (IIA, 2008).

Managers deal with business risks by one or more of the following:

- Designing and maintaining a set of control activities
- Sharing or transferring the risk through contractual relationships with third parties
- Avoiding the risk by choosing to change the business process to achieve the objectives in a less risky manner
- Diversifying operations, so that the risk of total loss is minimized.
- Accepting the risk (or the residual risk after applying other means) as the price of doing business. Internal auditors in the most successful organizations create audit programs that are broad enough to encompass tests for all five methods of managing business risk. In addition, their internal audit reports deal with business risk directly, reporting the results of management's efforts for each significant or important risk in the business process. (Sobel, 2008) indicates that enterprise risk management (ERM) is a structured and disciplined approach to help management understand and manage the uncertainties that can threaten a company's success.

2.6 Internal Audit Practice and Organization-Level Setting

Internal audit practice is apparently influenced by such factors as organizational category, organizational size, organizational risk exposure, management support to and auditee cooperation with IA. Therefore, it appears reasonable to expect that the

effectiveness of internal audit also varies among organizations. Potential organization-level influences on internal audit effectiveness are outlined in what follows.

a. Organizational category: - The objectives, operating practices and stakeholders of organizations in different sectors apparently vary. Therefore, following institutional theory arguments, it appears logical to expect differences in internal audit's role across sectors. For example, Jacobs (1998) suggests that value for money audit is influenced by institutional context. The type of business in which a company is engaged may also influence the type of internal control and the extent of professional advice that internal audit provides to management (Roth 2002). As a result, the services required from internal auditors may differ by type of business. Goodwin (2004) highlights some differences in the relationship between internal audit and audit committees across sectors. Propensities to outsource internal audit, as well as all the resulting issues are also likely to vary across sectors (Goodwin, J 2004).

b. Company size: -As the size of an organization increases, the complexity of the necessary organizational controls as well as the regulatory requirements imposed on it are also likely to increase. This increased complexity and regulation may mean greater demands from internal audit regarding IA's services relating to the control systems of organizations (Arena, Arnaboldi&Azzone 2006). Consistent with this notion, Carcello, Hermanson and Neal (2002) find that audit committees are likely to make reviews of internal audit results in larger companies than smaller ones. They also note that large companies are likely to allocate more resources to internal audit activity. Increased company size is also sometimes associated with a propensity to outsource internal audit services to external auditors (Carey, Subramaniam&Ching 2006). Moreover, company size is related to risk and it has been employed as a proxy to measure risk (Cheng & McNamara ,2000).

c. Risk exposure of an organization: - Felix, Gramling and Maletta (2001) find that availability of internal audit in an organization depends on the level of risk. When organizations are exposed to high risk, management's demand for internal audit in the management of risk may be greater. Internal audit's focus on risk management in turn enables it to align its plans with organizational goals and strategies (Selim& McNamee 1999). As different organizations may be exposed to different levels of risk, the demand for internal audit services may vary accordingly (Arena, Arnaboldi&Azzone 2006). Goodwin and Kent's (2006) hypothesis of a positive relationship between business complexity and existence of internal audit in an organization could also suggest that the level of risk in an organization may influence internal audit practices.

d. Management support, auditee cooperation, and organizational policy: - Management support to internal audit in different forms is also considered as a determinant of internal audit effectiveness (Mihret&Yismaw 2007). This support could, for instance, be in the form of allocating adequate human and material resources to internal audit. It could also be by way of setting the overall tone in organizations that determines the level of cooperation of auditees to IA. The level of auditee cooperation in turn influences IA's extent of accomplishing its objectives properly (Mihret and Yismaw, 2007).

2.7 Management's perception of IA's effectiveness

Perception is the process of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard III, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit

services and ignored audit recommendations (Flesher and Zanzig, 2000) which adversely influence the effectiveness of IA (Arena and Azzone, 2009).

When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values. Sarens and Beelde (2006) used a case study approach of five Belgian firms to explore the expectations and perception of both senior management and internal auditors with respect to the relationship between these two parties. They find that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship the audit committee is weak. However, senior management's expectations significantly influence internal audit and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization.

2.8 Control models

There are different control models companies can use to assess their risk; the most important of this is the report of Committee of Sponsoring Organization of the Treadway Commission (COSO). The issued the report called in internal control –integrated Framework in September 1992. This report showed the importance of internal controls in achieving entity's objectives and provides the impetus for entities to refocus attention on their systems of internal controls in an attempt to ensure responsible corporate governance and reliable financial reporting processes.

The recent scandals and financial crashes that hit several large listed companies laid bare the inadequacy of internal control systems in directing management attention and resources towards risk management. An answer to the increasing demand for a more

risk-focused perspective in the design and implementation of internal control systems has been given recently by COSO through the Enterprise Risk Management Integrated Framework (ERM-IF) (COSO, 2004).

In the 1992 report, the identification and assessment of risk were considered strictly an aid in determining the adequacy of internal control systems. In fact, emphasis was placed on the internal control system, risk assessment being only one element of the control process.

In the ERM framework (2004), risk management is a key governance activity and internal control is an element of the ERM system. In order to appreciate its relevance and scope, risk management must be examined in connection with:

- Corporate governance, as top management is responsible for conscious and effective risk management;
- Performance measurement, as risk assessment is a key ingredient of risk-adjusted return measures;
- Internal control, as internal control is considered a component of Enterprise Risk Management systems.

Regulations related to risk and control around the world are conflicting each other, in the USA, for example, there is on the one hand the widely held view that effective internal control requires the implementation of ERM (COSO,2004), which may take some years to complete. At the same time, there is a US-regulatory view that the primary consideration is financial controls (SOX, 2002) that are essential to providing reassurance on the reliability of financial statements. This narrowing of the definition of risk appears to be in direct conflict with the culture of ERM. In Europe, the approach is „comply or explain“ approach to governance, rather than reliance upon auditors“ assessment of internal control effectiveness. As of 2008 this principle is not universally

applicable across Europe because of a need for some member states to introduce national governance codes. (Mohammed 2011)

2.9 Risk assessment

Risk is now viewed from a very broad perspective, it encompasses issues such as corporate reputation, regulatory compliance, health and safety of employees, supply chain management and general operational activities and this changed perspective has led to some rethinking of the approaches to the design of internal control systems (Woods, 2008).

Risk management is a dynamic process for taking all reasonable steps to find out and deal with risks that impact on our objectives. It is the response to risk and decisions made in respect of available choices that are important and the IIA has made the pertinent point that: „Although organizations use the term risk management frequently, it too is misleading, because risk is never actually managed. It is the organization that is managed in anticipation of the uncertainty (and opportunities) presented by risk in the environment (Spencer, 2010).

Practitioners have long considered risk assessment as an activity to be performed in the audit process with the specific aim to identify areas of weakness or symptoms of potential failure. Specifically, since the issuance of the COSO Internal Control Integrated Framework (IC-IF) (COSO, 1992), risk assessment is explicitly regarded as one of the components of internal control systems (Beretta and Bozzolan, 2009).

As per Sergio and Saverio (2008) Risk assessment is a significant part of internal audit planning. As a systematic process for the identification and analysis of relevant risks threatening the achievement of an entity's objectives, risk assessment is helpful for assessing and integrating professional judgments about probable adverse conditions

and/or events. The process of risk assessment includes identification of auditable activities, identification of relevant risk factors, and determination of their relative significance. An efficient and effective audit program is responsive to risk assessment, and is designed to ensure that proper controls are in operation that minimize or eliminate risk and exposure (Sawyer and Vintend 1996). Risk assessment in auditing involves pattern recognition because an unexpected deviation or variation is symptomatic of risk. Comprehensive risk assessment is becoming valuable for success and survival of an organization (IARF, 2003). A survey conducted showed that regulatory requirements diverted internal audit resources from other important internal audit activities such as risk-based audits to assurance work. Failure to address key strategic and operational risks as well as compliance risk in an annual audit program undermines the effectiveness of the IAF. It diminishes its strategic value to key stakeholders and exposes the enterprise to internal auditors must not only be able to assess risks in their larger organizations, but they must also be able to complete complex risk analyses in their own IAF. Being able to self-evaluate is important to the success of the IAF. To accomplish this, internal auditors need to possess increasing levels of critical thinking, analysis, decision making, and logic (IARF 2003). The internal auditing profession needs that "the internal auditing process provides assurance to management and the audit committee that risks to the organization are understood and managed properly" (IIA 2004). This statement shows that the internal auditor requires identifying and assessing the risk of the company. Methods to identify problem areas differ among internal audit function, it ranges from judgmental selection methods and traditional audit universe coverage to using complex risk assessment methods. Goodwin-Stewart and Kent (2006) stated that internal auditors can add value to the entity by providing assurance that its risk exposures are properly understood and managed. Internal audit should play a key role in monitoring a company's risk profile and identifying areas to improve risk management processes

2.10 Risk- based internal auditing

Since the issuance of the COSO Report (COSO 1992), the intensity of the ties between internal auditing and risk management has increased, as the role of internal auditing has evolved from inspection to risk assessment, thus offering assurance to management and to audit committees that business risks are clearly understood and effectively managed (IIA, 2002–2004; Allegrini and D’Onza 2003). Internal auditing supports the risk management process throughout the organization by providing tools and techniques for the identification and the evaluation of business risks, by auditing the risk management process and by co-coordinating risk reporting to senior management (IIA – UK and Ireland, 2002).

As per Danescu (2008) risk based Internal Audit is driven by risks and reports whether these are managed, the focus being on managing the future. Risk Based Internal Audit is targeted on: risk identification, prioritization of audit area and allocation of audit resources in accordance with risk assessment. Internal audit aims at providing an independent opinion about whether the objectives of one institution are achieved, and if not to define the circumstance that hinder from accomplishing them. In the context of value addition to the organization, there is increasing pressure for addressing exposure to risks, regulatory requirements for risk assessment and quantification play in these sense a great role. The shift from a traditional approach on internal audit is required by current trends of corporate governance and risk management.

Internal auditing can play valuable role in risk management. More specifically, the two most important ways in which the IAF provides value to an organization are: (1) by providing objective assurance that major business risks are being managed appropriately; and (2) by providing assurance that the risk management framework is operating effectively (Sarens, 2009).

The core roles of internal audit with regard to Enterprise Risk Management (ERM) is providing objective assurance to boards that the principal business risks are being managed appropriately and that the internal control framework is functioning effectively (IIA, 2004). Although responsibility for ERM rests with management, there is a need for formal bodies such as internal audit and audit committees, which operate on an organization-wide basis to augment informal.

The changing role of internal auditors has determined the creation of new skills to perform activities that are more closely related to risk management and corporate governance. However, risk management requires different competencies from compliance; it needs auditors who are able to understand the main drivers of business performance, to deal with different sources of risk, to involve line managers and increase their confidence in risks and controls (Arena and Azzone, 2009).

The role of internal auditors must be clearly defined by organizations to ensure that they do not set the risk appetite, impose risk management processes, or make decisions about risk responses (Hass, Abdol mohammadi and Burnaby, 2006). To sum up, since the issuance of COSO (1992) the intensity between internal audits functions and risk management has increased.

2.11 Control Governance Frame Work

There is the need to talk about corporate governance; this is because risk management is a key element of corporate governance and overall internal control of a company (Collier, 2007). Corporate governance is extended to consideration of all business risks – operational, financial and compliance which may prevent an organization from achieving its objectives. In other words, internal control must include risk management (Crawford and Stein, 2002). Good governance promotes relationships of accountability among the primary corporate participants to enhance corporate performance (Rezaee,

Olibe and Minmier, 2003). To meet this responsibility, organizations require adapting and combining the expertise of existing internal audit with that of risk management functions and relate the resulting effort to the business and operational needs of the organization.

As per Beretta and Bozzolan (2009), an internal control process that effectively supports risk management must:

- Be able to identify the risks threatening the business;
- Be integrated into the processes of strategic objectives setting and of strategic resources allocation;
- Be closely linked to the process of budgeting and assignment of objectives to management
- Ensure the continuous monitoring of risk management strategies

Generally, approaches to guidance and regulation on risk and control are globally diverse, and the prospects for convergence are uncertain. The only firm point of agreement is that risk management and effective internal control are fundamental prerequisites of good corporate governance (Woods, 2008). From the above discussion one can infer that internal auditing provide valuable role in organizations. It is one part of internal control system of a company to investigate effectiveness and efficiency of management activity. (Mohammed, 2011)

2.12 Empirical Evidence

Hussein (2013) the article investigated the relationship between Internal auditing practices and internal control system in Somali remittance firms. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives are to identify the role of internal auditing, and to identify the level of internal control system.

The study is based on 83 target population especially Accountants, finance director, chief cashier and chief executive officer in remittance firms Descriptive and correlation analysis was used . It administers questionnaire as a research instrument. The findings of this article show that internal auditing practices of remittance firms is effective but there is some limitation about separation of duties. The study also suggests that there is a positive correlation between internal auditing and internal control system.

Fadzil (2006) studied internal auditing practice and internal control system. The purpose of this study was to see wither the internal auditing practice affect internal control quality. Two sets of questionnaires were used in the study. An internal auditing practice was measured by the items listed in the SPPIA and the internal control was measured by means of the statement on internal control: guidance for directors of public listed companies. The population used in this study was all the companies listed in the Bursa Malaysia in 2001. This study used both descriptive and inferential analyses. It was found that management of internal audit department; professional proficiency, objectivity and review significantly influence the monitoring aspect of the internal control system. Scope of work and performance of audit work significantly influences the information and communication aspect of the internal control system while performance of audit work, professional proficiency and objectivity significantly influence the control environment aspect of the internal control system. The study also shows that management of internal audit department, performance of audit work, audit program and audit reporting significantly influences the risk assessment aspect of the internal control system. Lastly, performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system.

Karagiorgos (2007) conducted document analysis study about internal auditing as a main tool for efficient risk assessment. The motivations for this article reflect a desire to investigate and enrich the importance of internal control in the effective risk

management. The study was aimed at examining the relation between the effectiveness of the management depends and the efficient risk assessment. In this study was examining the conceptual approach of risk. Then, the three main components of audit risk are analyzed. And finally the researchers examined the use and importance of an audit risk model. The papers investigated the relation between the risk assessment and the materiality. The results indicate that internal audit is an essential factor in the efficient risk management and consecutively in the business survival and success.

Fraser and Henry (2007) studied embedding risk management: structure and approaches in UK. The purpose aims to report into ways by which companies identify risk and embed risk management and control procedures and to report an interaction between internal audit and audit committee and their contribution to enterprise wide risk management. This study interviewed chief auditors and external auditors on the issues identified in the purpose statement. The study found that internal auditors were believed to have a role play but concerns were expressed about experience and independence. And also found that internal audit and risk management function should be separated to preserve internal audit independence and clarify internal audit role.

Umor (2009) study on internal audit and risk management functions of Public Listed Companies in Malaysia found that the overall risk management efforts among companies of the internal audit department are found to be low compared to the risk management department. The author concludes that, such a low percentage might be due to the lack of commitment from top management.

Danescu (2010) showed internal audit aims at providing an independent opinion about whether the objectives of one institution are achieved, and if not to define the circumstance that hinder from accomplishing them. In the context of value addition to the organization, there is increasing pressure for addressing exposure to risks,

regulatory requirements for risk assessment and quantification play in these sense a great role. The shift from a traditional approach on internal audit is required by current trends of corporate governance and risk management. They proposed a procedural guidance framework on how to address problems regarding operational risk internal auditing by stressing particularities of banking organization working on Romanian territory. They concluded draw attention to the fact that acknowledging the regulation efforts undertaken by supervision authority for efficient risk management, a risk based internal audit can be implemented having in mind the advantages that this form of audit involves.

2.13 Summary and Literature Gap

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management.

The structure of internal audit function widely differs among different organizations. In some organizations IAF have chief audit officer who is member of senior management, but in some other organizations IAF is as part of finance and accounting function. Activities of internal audit function differ among organizations depending on the size of an organization, the level of development of professional activities within a given country, corporate governance frame work, and others. Internal audit department 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.

Risk management is the logical development and implementation of a plan to deal with potential losses. It is important for an organization to put in place risk management

programs so as to manage its exposure to risks as well as protect its assets. The method used for identifying and assessing risk will differ according to the type of organization. The process involves these basic steps: understanding the mission of the organization, performance of risk assessment to identify the risks associated with the mission, categorizing and prioritizing the risks, design processes, training and checks (controls) for top level risks, monitoring internal control effectiveness and making improvements as required and repetition of the steps. Internal auditing is an independent, objective assurance and consulting activity. Its core role with regard to enterprise risk management is to provide objective assurance to the board on the effectiveness of risk management.

Internal auditing practice and risk assessment differ contextually and internal audit is an essential factor in the efficient risk management and consecutively in the business survival and success. Moreover, it is important to notice that the Ethiopian environment is different from the developed countries environment where the internal auditing profession is more developed and where companies are subject to more stringent corporate governance regulations. It is better to see the problem in developing countries context to enrich and extend the understanding of internal auditing and risk assessment practices in Ethiopian public enterprises context.

By utilizing an analytical framework from the extant literature and empirical evidence from other countries context, the research elaborated in more detail an internal auditing practice that aims to draw inferences regarding the use of control self-assessment methods within the selected Ethiopian public enterprises context.

CHAPTER THREE

REASERCH METHDOLOGY

This chapter outlines the set of scientific approaches used in gathering information to obtain the data for processing in order to achieve the objective of the study, how it was designed and presented. In addition, the researcher's explained how the selected public enterprise in Ethiopian was chosen, research design, sample size, data collection and method of data analysis.

3.1 Research Design

To enable the researchers address the objective of the study, descriptive research design used for the study because this method or type of research is commonly conducted to collect detail description of existing phenomena with the intent of employing data to justify current conditions and whenever possible to draw valid general conclusions from the facts discovered. As it fits to the purpose of the study, this research design used to assess internal audit practices with regard to the public enterprises.

3.2 Sample Size and Sample design

As per Ministry of Public Enterprise Communication Office (2017), there are 25 service, 8 manufacturing, 3 finance, 7 construction and 3 merchandize sector total of 46 public enterprise located in Addis Ababa in which they are very popular in nature and have greater impact to influence the country's overall social, political and economic issues and operated in different business sectors; namely construction, finance, manufacturing, merchandising and service sectors. Classifying the total population of 46 public enterprises in to 5 homogeneous substratum by using proportionate stratified

sampling is important to each sector is properly represented so the sample drawn from it is proportionate to sector's share of total population.

The sampling design for this population was proportionate stratified sampling. In which 8 public enterprises already selected. One from construction sector (Ethiopian Construction Work Corporation), one from finance sector (Commercial Bank of Ethiopia), one from manufacturing (Sugar Corporation), one from merchandize sector (Ethiopian Trade Business Enterprise) and four from service sector (Ethiopian Tourist Trade Enterprise, Ethiopian Building Material Supply Enterprise, Ethiopian Telecommunication Corporation and Ethiopian Postal Service) accordingly. Total of 48 internal auditors and 8 managers purposively selected. From each one of, six senior auditors and one audit manager were also selected in order to draw appropriate conclusion.

3.3 Data Sources and Collection Instruments

For the study the researcher used primary data. Primary data collected based on a structurally designed questionnaire from senior internal auditors and audit managers who are working in five different sector of the public enterprise. But, the questions are different for the audit department managers and the senior IA according to their profession and responsibility. The questionnaire included both open ended and cloth ended questions. The questionnaires related to internal audit practice, in such a way as to enable measurement of the respondent's opinions. The respondents were asked to indicate their level of agreement on a five point likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (DA; or 2), and strongly disagree (SD; or 1). The numbers indicated in the questionnaires to provide a feel of ordinal scale of measurement and to generate data suitable for quantitative analysis.

3.4 Method of Analysis

Data analysis consists of examining, categorizing, tabulating or otherwise recombining the evidence, to address the initial proposition of the study (Yin 1989:105). For this study both quantitative and qualitative data analysis methods were used. The researcher applied a descriptive statistical based on the data obtained from the primary sources and the data collected via questionnaires were analyzed using statistical package for social scientists. Then, the collected data was presented in the tables and analyzed using descriptive statistical tools in the form of percentage, frequencies, average and Std. Deviation. The qualitative method of analysis is employed for feedbacks obtained using open-ended questionnaire. Finally, based on the information obtained from the analysis part, conclusions and recommendations were forwarded.

Chapter Four

Data Presentation, Analysis and Interpretation

4.1. Introduction

As indicating in the previous chapter, the main attempt of this study is internal audit practices assessment in selected Ethiopia public enterprise. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from managers and senior internal auditors of the public enterprise offices covered in the questionnaire. Questionnaire results showed that, 8 enterprises have filled the questionnaire. For 48 senior internal auditors and 8 managers totally 56 questionnaires were distributed, but from 40 internal auditors and 8 managers questionnaires were collected, 48 were usable responses, which were response rate of 85.7 %.This shows good response rate both for the managers and internal auditors. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents' related questions like the work experience, and level of education.

4.2 Educational background and work experience

Table 4.1 Educational background

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid MSC / MBA	8	16.7	16.7	16.7
BA	35	72.9	72.9	89.6
DIPLOMA	5	10.4	10.4	100.0
Total	48	100.0	100.0	

Source: Questionnaire Results, 2017

Table 4.1 shows the level of educational background, most respondents have bachelor's degree 35(72.9%) respectively followed by master's degree 8(16.7%) for managers and for internal auditors. Only 5 (10.4%) respondents from IA have diploma and there were no managers who had diploma. But from both managers and internal auditors there were no respondents who had other level of educational background. The implication of result shows the majorities of the respondents were educated/or professional and can contribute more for the effectiveness of their intended work.

Table 4.2 Work Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-3	10	20.8	20.8	20.8
3-5	20	41.7	41.7	62.5
5-10	13	27.1	27.1	89.6
10-20	5	10.4	10.4	100.0
Total	48	100.0	100.0	

Source: Questionnaire Results, 2017

As indicating in table 4.2 above respondents work experience ranges from one year up to 20 years, but the majority of the respondents are in the range of 3-5 years 20(41.7%) and some respondents work experience ranges from 5-10 years 13(27.1%) and from 1-3 years 10(20.8 %). A few participants having work experience of 10-20 years 5 (10.4%). The implication of result shows the majority of the respondents are well experienced and can perform their auditing activities by using their past audit experiences.

4.3 Type of your organization

Table 4.3 Type of your organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Finance	6	12.5	12.5	12.5
	Manufacturing	6	12.5	12.5	25
	Merchandising	6	12.5	12.5	37.5
	Service	24	50	50	87.5
	Construction	6	12.5	12.5	100
	Total	48	100.0	100.0	

Source: Questionnaire results, 2017

Table 4.3 displays from 48 respondents 6 (12.5%) were from the financial sector, 24(50%) were from Service sector, 6 (12.5%) were from merchandizing and 6 (12.5%) were from the Manufacturing sector the remaining were from construction providing organizations, which consisted of 6 (12.5%) of total respondents.

The implication of result shows that all sectors have well structure internal audit function.

4.4 Structures and activates of internal audit function

4.4.1 Number of internal auditors

Table 4.4. Number of internal auditors (Managers Response)

Number of internal auditors	Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid 1-19 Internal Auditors	2	25.0	25.0	25.0
20-32 Internal Auditors	5	62.5	62.5	87.5
33>Internal Auditors	1	12.5	12.5	100.0
Total	8	100.0	100.0	

Source: Questionnaire results, 2017

Table 4.4 shows from 8 public enterprises a few companies has from 1 up to 7 internal auditors, which were 2(25%) of the total sample. Actually, in most public enterprises, the internal audit department has from 8 up to 15 internal auditors employees, which consists of 5 (62.5%) the sample, the other one public enterprises has 42 internal audits employees 1(12.5%) the main difference of this financial sector was due to size of the organization and the extent and frequency of its activities.

The implication of result in table 4.4 is that many Ethiopia public enterprises their internal auditor's employees or Audit department size from 8 up to 15. This result indicated that all public enterprises have used an IAF services. An IA activity helps the public enterprises accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness.

4.4.2 The scope of internal audit function

Table 4.5 Descriptive statistics of scope of internal audit function (Managers Response)

No.		N	Mean	Std. Deviation
1.	Internal auditors assess the accomplishment of organization goals and objectives.	8	3.87	.835
2.	Internal auditors evaluate the risk and internal control systems of the organization.	8	3.75	.707
3.	Internal auditors assist the management by identifying risk exposures of the organization.	8	3.38	.518
4.	Internal auditors of the organization investigation of major fraud cases.	8	3.62	.518
5.	Internal auditors identify a source of information on major frauds and irregularities.	8	3.87	.641
6.	Internal auditors check efficiency and effectiveness of operating results	8	3.62	.744
	Valid N (listwise)	8		

Source: Questionnaire results, 2017

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

The above Table 4.5 shows the mean response of six questions under the scope of internal audit function were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were very near to each other. Based on table 4.5 results the scope of internal audit function all public enterprises agreed the internal auditors assess the management to accomplishment the organization

goals and objectives; Internal auditors evaluate the risk and internal control systems of the organization, Internal auditors check efficiency and effectiveness of operating results, Internal auditors assist the management by identifying risk exposures of the organization, Internal auditors investigation of major fraud cases and to identify a source of information on major frauds and irregularities.

These results imply that internal auditors of the public enterprises has key role to assist organization to accomplish of the goals and objectives, to evaluate the risk and internal control systems of the organization, to assist the management by identifying risk exposures of the organization, to investigation of major fraud cases, to identify a source of information on major frauds and irregularities and internal auditors check efficiency and effectiveness of operating results.

4.4.3 Audit planning and execution

Table 4.6 Descriptive statistics of Audit Planning and Execution (Senior Internal Auditors Response)

No.		N	Mean	Std. Deviation
1.	Risk-based audit plan is considered in setting audit priorities	40	3.90	.539
2.	Control-based approach audit plan is considered in setting audit priorities	40	3.76	1.044
3.	During the examination of audit evidence, analytical audit procedures are used as appropriate	40	3.55	.826
	Valid N (listwise)	40		

Source: Questionnaire, 2017

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

As indicating in table 4.6 above the mean response of three questions under the audit Planning and execution had more than 3.00 and out of three questions two had the standard deviation of less than 1.00, these were risk-based audit plan is considered in setting audit priorities and during the examination of audit evidence. This indicates that the perception of responses were very near to each other.

The remaining one questions had a standard deviation of more than 1.00; which were control-based approach audit plan is considered in setting audit priorities which indicates that the responds perception were far away to one other.

The results in table 4.6 shows Risk-based audit plan is considered in setting audit priorities and Control-based approach audit plan is considered in setting audit priorities. In all public enterprise during the examination of audit evidence, analytical audit procedures are used as appropriate.

4.4.4 Requests of Senior Management to Prepared Audit Plan

Table 4.7 The Requests of senior management input are considered in setting internal audit priorities. (Senior Internal Auditors Response)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	26	65	65	65
No	14	35	35	100.0
Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.7, 26 respondents which consist of (65%) of usable responses said that the organizations were the audit plan is prepared according to requests of senior management, 14(35%) revealed that the organization's does not the audit plan is prepared according to requests of senior management.

The implication of result in table 4.7 is that many public enterprises were the audit plan is prepared according to requests of senior management, and same enterprises were the audit plan is not prepared according to requests of senior management, which shows that public enterprises management higher attention in their organization to prepared audit plan.

4.4.5 The preparation of Annual internal audit plan

Table 4.8. The preparation of Annual internal audit plan (*Senior Internal Auditors Response*)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	37	92.5	92.5	92.5
	No	3	7.5	7.5	100.0
	Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.8, 37 respondents which consist of (92.5%) of usable responses said that the organization prepared Annual internal audit plan, 3(7.5%) revealed that the organization's does not prepared Annual internal audit plan.

The implication of result in table 4.8 is that most public enterprises were organizations has an Annual internal audit plan, and same enterprises were not Annual internal audit plan, which shows that the availability of audit plan in the public enterprises have the benefits of monitoring and controlling the internal audit activities and objectives, ensuring the independence, reviewing the internal audit program, ensuring the adequacy of the scope of internal audit activities and monitoring managements actions in terms of financial , risk management and internal control.

4.4.6 The reason for the existence of internal audit function

Table 4.9 the reason for the existence of internal audit function (Senior Internal Auditors responses)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Add value to the organization	34	85	85	85
Imposed by the government /law/	6	15	15	100.0
Total	40	100.0	100.0	

Source: Questionnaire results, 2017

According to the Table 4.9, the highest percentage 34(85%) of the respondents believes that internal audit adds value to the organization that they work for. However, although the majority of the respondents agree internal audit adds value to the organization, 6(15%) of them think that imposed by the government /law/.

The results in table 4.9 shows that existence of internal audit function is to be done for the achievement of objective and adding value to the organizations, by providing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit departments of all selected public enterprises, were established with the primary purpose of adding value to the organizations or established by governments' imposition by law.

4.4.7 The presence of audit committee

Table 4.10 The presence of audit committee (*Managers Response*)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	5	62.5	62.5	62.5
	No	3	37.5	37.5	100.0
	Total	8	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.10, 5 respondents which consist of (62.5%) of usable responses said that the organization have an audit committee, 3(37.5%) revealed that the organization's does not have an audit committee.

The implication of result in table 4.10 is that most public enterprises were organizations has an audit committee, and same enterprises managements were not organizations has an audit committee, which shows that the availability of audit committee in the public enterprises have the benefits of monitoring and controlling the internal audit activities and objectives, ensuring the independence, reviewing the internal audit program, ensuring the adequacy of the scope of internal audit activities and monitoring managements actions in terms of financial , risk management and internal control.

4.5 Risk Management

4.5.1 Risk management in the organization

Table 4.11 *Descriptive statistics risk management in the organization (Managers Response)*

No.		N	Mean	Std. Deviation
1.	Effective risk management is important to the achievement of your organization's objectives.	8	3.87	.641

2.	Your organization encourages and provides resources to staff to undertake relevant training to improve their skills in risk management.	8	3.62	1.061
3.	Your organization's risk management policy is made known to all staff	8	3.75	1.035
	Valid N (listwise)	8		

Source: Questionnaire results, 2017

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

According to the Table 4.11, there were three questions under risk management in the organization had mean response of more than 3.00 and out of three questions one had the standard deviation of less than 1.00, which were effective risk management is important to the achievement of your organization's objectives . This indicates that the respondents perception were very near to each other.

The remaining two questions organization encourages and provides resources to staff to undertake relevant training to improve their skills in risk management and the organization's risk management policy is made known to all staff had standard deviation of more than 1.00 showed that respondent's perceptions were far away from one other.

These results imply in table 4.11, the effective risk management is very important to its operation and activities, the organization's ability to provide resources and encourage staff to undertake relevant training to improve their skills in risk management and risk management policy.

4.5.2 The role of internal audit in risk management

Table 4.12 Descriptive statistics the role of internal audit in risk management (Managers Response)

No.		N	Mean	Std. Deviation
1.	Internal audit provides value to the organization in setting the risk appetite.	8	3.81	.750
2.	Internal audit provides value to the organization in imposing risk management processes.	8	3.57	.676
3.	Internal audit provides value to the organization in management assurance on risks.	8	3.43	.978
4.	Internal audit provides value to the organization in taking decisions on risk responses.	8	3.76	.539
5.	Internal audit provides value to the organization in implementing risk responses on management's behalf.	8	3.76	.700
6.	Internal audit provides value to the organization in accountability for risk management.	8	3.24	1.136
	Valid N (list wise)	8		

Source: Questionnaire results, 2017

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

Table 4.12 shows, six questions under the role of internal audit in risk management had mean response of more than 3.00 and out of six questions five had the standard

deviation of less than 1.00, the remaining one question had a standard deviation of 1.136 which was accountability for risk management.

The result in table 4.13 indicated that respondents on average agreed on the role of internal audit in risk management internal audit provides value to the organization setting the risk appetite, imposing risk management processes, management assurance on risks, taking decisions on risk responses, implementing risk responses on management’s behalf and accountability for risk management.

These results imply in table 4.13 the role of internal audit in risk management managers are providing advice, and challenge or support management’s decisions on risk, as opposed to making risk management decisions. They frequently and effectively communicate on business risks and objectives, and hold the internal audit processes in high regard for their contribution to the organization’s success.

4.5.3 Existence of risk management department

Table 4.13 Existence of risk management department (Managers Response)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	3	37.5	37.5	37.5
No	5	62.5	62.5	100.0
Total	8	100.0	100.0	

Source: Questionnaire results, 2017

Table 4.13 shows from 8 public enterprises considered in this study 3(37.5%) have risk management department and the remaining 5(62.5%) have no formal risk management department. From three public enterprises which have risk management department two of them were from financial sector and the remaining one was from service sector.

The implication of result in table 4.13 the data implies that risk management is very important and more sensitive in financial sector than other sectors. This is due to the fact that, in the financial institution, enterprise risk management is the combination credit risk, market risk, liquidity risk, market and insurance risk in life insurance, non-life insurance risk, operational risk and business risk.

4.5.4 The Relationship Between Internal Audit Functions and Risk Management

The relationship between risk management unit and internal audit functions has big difference among enterprises to enterprises depend on their activities and organization size. On the above Table 4.13 shows from 8 public enterprises only 3 have risk management department and the remaining 5 have no formal risk management department, but internal audit department or audit committees is more responsible for risk management. From three public enterprises which have risk management department two of them were from financial sector and the remaining one was from service sector.

On the respondent's opinions the relationship between risk management and internal audit department is formally set and clear, but that was not more implemented. Risk management is a key responsibility of management and internal audit department. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. In this respect, managements have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. This means that management is responsible for their organization's risk management and control processes. Internal auditors should assist management by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of management's risk processes. However, internal auditors acting in a consulting role can assist the organization in

identifying, evaluating and implementing risk management methodologies and controls to address those risks.

In the above discussions the respondents agreed the relationship between risk management unit and internal audit functions is working together to designing and maintaining a set of control activities, to sharing or transferring the risk through contractual relationships with third parties, to avoiding the risk by choosing to change the business process to achieve the objectives in a less risky manner, to diversifying operations so that the risk of total loss is minimized and to accepting the risk as the price of doing business, to achieve organization goal and objective. Finally, a respondent from another organization stated that there is no risk management department in their organization; however internal audit department or audit committees are more responsible for risk management. Hence the risk identified by the committee other than identified by internal audit function is also used as an input for risk based audit activities.

4.5.5 The quality assurance program of internal audit

Table 4.14 quality assurance program of internal auditing (*Managers Response*)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	6	75	75	75
No	2	25	25	100.0
Total	8	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from Table 4.14, 6 respondents which consist of 75% of usable responses said that internal auditing have a quality assurance program. 3(25. %) revealed that their unit internal auditing have not a quality assurance program.

The implication of result in Table 4.15 is that many Ethiopian public enterprises manager believe internal auditing have a quality assurance program, and few enterprises manager were internal auditing have not a quality assurance program.

4.6 The internal audit practices in the organization

Table 4.15 Descriptive statistics of internal Audit Practices (Managers Response)

No.		N	Mean	Std. Deviation
1.	Internal auditors have appropriate skills to audit your department.	8	3.75	.707
2.	Internal auditors possess adequate experience to understand your department's operations and procedures.	8	3.88	.641
3.	Internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from any one	8	3.62	1.302
4.	Audit findings are correct.	8	3.62	.518
5.	Audit findings are supported by sufficient evidence.	8	3.87	.835
6.	Audit recommendations are constructive.	8	3.87	.835
7.	You use recommendations, criticisms and information provided by internal auditor for decision making.	8	3.75	.886
	Valid N (list wise)	8		

Source: Questionnaire results, 2017

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

As it can be seen from table 4.15 the mean response of seven questions under factors associated with internal audit practices had more than 3.00 and out of seven questions six had the standard deviation of less than 1.00, these were internal auditors have appropriate skills to audit the department, internal auditors possess adequate experience to understand department's operations and procedures, audit findings are correct, audit findings are supported by sufficient evidence, the audit recommendations are constructive for organization and manager use recommendations, criticisms and information provided by internal auditor for decision making. This indicates that the perception of responses were very near to one other. The remaining one questions had a standard deviation of 1.302 which was about internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from any one.

The result of table 4.16 indicated that respondents on average agreed on internal Audit practices in their organizations internal auditors has appropriate skills to audit the department, internal auditors possess adequate experience to understand department's operations and procedures, audit findings are correct, audit findings are supported by sufficient evidence, the audit recommendations are constructive and manager use recommendations, criticisms and information provided by internal auditor for decision making to achieve goal and objective.

4.7 Management's perception

4.7.1 Management's perception of IA effectiveness

Table 4.16 Descriptive statistics of management's perception (Senior Internal Auditors Response)

No.		N	Mean	Std. Deviation
1	The office has enough awareness and good perception about Internal auditing roles.	40	3.86	.727
2	The office considers internal auditing practices as a value adding activity and I work smoothly & regularly with the management.	40	3.48	.602
3	The office considers auditors to work smoothly as well as regularly with the management.	40	3.65	.813
4	The office encourages me to promote value-added activities.	40	3.95	.669
5	The office encourages me to strength internal audit function.	40	3.83	.747
6	The office encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function.	40	3.47	.601
7	The position/status of internal audit is clearly recognized by the management in my office.	40	3.77	.818

8	The office see internal auditing as providing internal assurance through investigations, check & assessment, and consultants& adviser particularity into controls associated to management performance and internal operations. Valid N (list wise)	40 38	3.92	.667
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Source: Questionnaire, 2017

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

Table 4.16 shows the mean response of eight questions under management’s perception of IA effectiveness were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were very near to each other.

Based on table 4.16 results the good perception of the management for the internal audit effectiveness, the management has enough awareness and good perception about internal auditing roles, the management considers internal auditing practices as a value adding activity and internal auditors work smoothly & regularly with the management, the management encourages internal auditors to implement the recommendations, to promote value-added activities and to strength internal audit function and the management see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations.

4.7.2 The attention of management (Management Involvement)

Table 4.17 The auditors assigned to areas where management required special attention (mismanagement, fraud). (*Senior Internal Auditors Response*)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	26	65	65	65
No	14	35	35	100.0
Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.17, 26 respondents which consist of (65%) of usable responses said that the organization's management were gives special attention for mismanagement and fraud, 14 (35%) revealed that the organization's management does not gives special attention for mismanagement and fraud.

The implication of result in table 4.17 is that many public enterprises managements were required special attention for mismanagement and fraud, and few enterprises managements were not required special attention for mismanagement and fraud, which shows that public enterprises managements higher attention in their organization by involved internal audit staff and other internal control staff, in the risk assessment process specially mismanagement and fraud to achieve the goals and objective.

4.7.3 The Involvements of Internal Auditors in the Implementation of Audit Recommendation

Table 4.18 The involvements of internal auditors in the implementation of audit recommendation (*Senior Internal Auditors Response*)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	32	80	80	80
No	8	20	20	100.0
Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.18, 32 respondents which consist of (80%) of usable responses said that the organization's were the audit recommendation is implemented timely, 8(20%) revealed that the organization's does not the audit recommendation is implemented timely.

The implication of result in table 4.18 is that many public enterprises were the audit recommendation is implemented timely, and little enterprises were the audit recommendation is not implemented timely, which shows that public enterprises higher attention in their organization to implemented timely the audit recommendation to achieve the goals and objective.

4.8 Control Models

Internal control consists of five components that management designs and implements to provide reasonable assurance that its control objectives will be met. Each component contains many controls, but auditors concentrate on those designed to prevent or detect material misstatement in the financial statements. The internal control components

include the following: control environment; risk assessment; control activities; information and communication; and monitoring. The researcher wanted to assess the awareness and application of control models (COSO, and ERM, etc.) in public enterprises.

4.8.1 Usages of control models

Table 4.19 Usage control models (Senior Internal Auditors Response)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	32	80	80	80
	No	8	20	20	100.0
	Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As indicating in table 4.19 above respondents 32 (80%) were incorporated COSO or ERM principles in the internal control policies and procedures. Some respondents 8(20%) said that do not uses the control models provide an effective basis for designing the internal control system.

The implication of result on table, many public enterprises were uses COSO or ERM control models provide an effective basis for designing the internal control system. Some does not uses the control models, but their control system based on the organizations manuals, procedures, policies and guidelines, and the focus is entirely addressed to monitoring and assessing control activities.

4.8.2 Importance of Control Models

Table 4.20 Descriptive statistics of Importance of control models (Senior Internal Auditors Response)

No.		N	Mean	Std. Deviation
1.	Control models provide an effective basis for designing the internal control system	32	3.57	.507
2.	Control models provide an effective basis for control system reviews	32	3.95	.590
3.	Control models provide an effective support for the reporting of internal auditing findings	32	3.76	.539
4.	Control models are used widely in your organization	32	3.71	.717
5.	Internal auditors in your organization address qualitative issues in their work	32	3.90	.625
	Valid N (list wise)	32		

Source: Questionnaire, 2017

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

Table 4.20 shows the mean response of five questions under importance of control models were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were close to one other.

Based on table 4.20 results internal audit units in public enterprises agreed with the importance of control models. It is worth mentioning that the relevance of the control models for designing the internal control system, for effective control system review, to

support the reporting of internal audit function and to address qualitative issue in audit work, even if there is subjectivity involved in this kind of audit.

4.9 Risk Assessment

4.9.1 Application of Risk Assessment Methods

Table 4.21 Application of Formal risk assessment methods (Senior Internal Auditors Response)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	32	80	80	80
	No	8	20	20	100.0
	Total	40	100.0	100.0	

Source: Questionnaire results, 2017

As one can see from table 4.21, 32 respondents which consist of 32(80%) of usable responses said that their internal audit function implemented formal risk assessment process. The remaining respondents 8(20%) said that were not implements formal risk assessment process.

The implication of result in table 4.21 is that many public enterprises were has formal risk assessment process in their internal audit function, and few enterprises were has not formal risk assessment process, which shows that public enterprises were give higher attention for risk management to achieve their goals and objective especially in all financial sector and service sector.

4.9.2 The Main Objectives of the Risk Assessment Activity in the Organization.

Table 4.22 Descriptive statistics of objectives of the risk assessment activity in the organization (Senior Internal Auditors Response)

No.		N	Mean	Std. Deviation
1.	The risk assessment activity have implemented in all the functions and processes of the organization	32	3.57	1.028
2.	Developing a systematic approach that management could use in dealing with the risk	32	3.38	1.024
3.	Identifying most critical areas to define the audit plan (macro risk assessment)	32	3.62	1.071
4.	Embracing risks in individual audit (micro risk assessment)	32	3.48	.928
5.	Complying with the regulatory requirement	32	3.62	.973
	Valid N (list wise)	32		

Source: Questionnaire, 2017

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

According to the Table 4.22 there were five questions under risk assessment objectives. All questions had a mean response of more than 3.00. Standard deviations of the three questions were more than 1.00, which were the risk assessment activity have

implemented in all the functions and processes of the organization, developing a systematic approach that management could use in dealing with the risk and identifying most critical areas to define the audit plan. This indicates that the respondents perception were far away from one other.

The remaining two questions which were embracing risks in individual audit; complying with the regulatory requirement and external risk reporting and value creation had standard deviation of less than 1.00. On the other hand standard deviation of less than 1.00 showed that respondent's perceptions were closed to each other.

The result in table 4.22 shows that on average the respondents agreed up on the objective of risk assessment.

Chapter Five

Summary, Conclusions and Recommendations

The study was internal audit practices assessment in selected Ethiopia public enterprise. This section of the research thesis presented the summary of findings, conclusions and recommendations are forwarded.

5.1 Summary

- The result of the study also shows the majorities of the respondents were educated or professional and experienced, and can contribute more for the effectiveness of their intended work, and can perform their auditing activities by using their past audit experiences.
- The results showed that most public enterprises their internal auditor's employees or audit department size from 20 up to 32. This result indicated all public enterprises have used an IAF. An IA activity helps the public enterprises accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness.
- Thus data analysis showed the internal auditors of the public enterprises has key role is to assist organization to accomplishment of goals and objectives, to evaluate the risk and internal control systems of the organization, to assist the management by identifying risk exposures of the organization, to investigation of major fraud cases, to identify a source of information on major frauds and irregularities and Internal auditors check efficiency and effectiveness of operating results.
- These results imply that, the internal audit department prepared annual audit plan based on Requests of senior management input, Risk-based audit plan and Control-based audit plan, but the risk-based annual audit plan is considered in

setting audit priorities as compared to requests of senior management input and Control-based audit plan. In all public enterprise during the examination of audit evidence, analytical audit procedures are used as appropriate.

- The existence of internal audit function is to be done for the achievement of objective and adding value to the organizations, by providing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit departments of all selected public enterprises, were established with the primary purpose of adding value to the organizations or established by governments' imposition by law.
- The result of the study also shows' the effective risk management is very important to its operation and activities, the organization's ability to provide resources and encourage staff to undertake relevant training to improve their skills in risk management and risk management policy. the role of internal audit in risk management internal auditors are providing advice, and challenge or support management's decisions on risk, as opposed to making risk management decisions. The risk management is very important and more sensitive in financial sector and service sectors than other sectors. from 8 public enterprises only 3 have risk management department and the remaining 5 have no formal risk management department, but internal audit department or audit committees is more responsible for risk management.
- The relationship between risk management and internal audit department is formally seated and clear, but that was not more implemented. To achieve its enterprises objectives, the respondents agreed the relationship between risk management unit and internal audit functions is working together to designing and maintaining a set of control activities, to sharing or transferring the risk through contractual relationships with third parties, to avoiding the risk by

choosing to change the business process to achieve the objectives in a less risky manner, to diversifying operations so that the risk of total loss is minimized and to accepting the risk .

- Based on the questionnaires result, the internal audit practices in the organizations internal auditors have appropriate skills to audit the department, internal auditors possess adequate experience to understand department's operations and procedures, audit findings are correct, audit findings are supported by sufficient evidence, the audit recommendations are constructive and manager use recommendations, criticisms and information provided by internal auditor for decision making to achieve goal and objective.
- The results showed that, the good perception of the management for the of internal audit effectiveness, the management has enough awareness and good perception about internal auditing roles, the management considers internal auditing practices as a value adding activity and internal auditors work smoothly & regularly with the management, the management encourages internal auditors to implement the recommendations, to promote value-added activities and to strength internal audit function and the management see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations.
- Most public enterprises managements were higher attention in their organization by involved internal audit staff and other internal control staff, in the risk assessment process specially mismanagement and fraud to achieve the goals and objective.
- The implication of result on table, many public enterprises were uses COSO or ERM control models provide an effective basis for designing the internal control system. But some do not uses the control models, their control system based on

the organizations manuals on procedures, policies and guidelines, and the focus is entirely addressed to monitoring and assessing control activities. Internal audit units in public enterprises agreed with the importance of control models. It is worth mentioning that the relevance of the control models for designing the internal control system, for effective control system review, to support the reporting of internal audit function and to address qualitative issue in audit work, even if there is subjectivity involved in this kind of audit.

- Thus data analysis showed many public enterprises were has formal risk assessment process in their internal audit function, and few enterprises were has not formal risk assessment process, which shows that public enterprises were give higher attention for risk management to achieve their goals and objective especially in all financial sector and service sector. And risk assessment is very important to develop a systematic approach that management could use in dealing with the risk, to identify most critical areas to define the audit plan, to embrace risks in individual audit, to comply with the regulatory requirement, and for external risk reporting and value creation.

5.2 Conclusions

Based on the analysis the researcher set the following conclusions.

- More importantly, the evidence the researcher reveals internal audit practices assessment in selected Ethiopia public enterprise. The evidence should aid understanding of the internal audit practice in the public enterprise, the management's perception for internal audit effectiveness; the role of internal audit function in risk management, the internal audit functions in control models and risk assessment methods is important and significant for internal audit practices and risk assessment in public enterprise. Knowledge of these factors should help stakeholders to assess the nature of internal auditing practice and risk management in Ethiopia public enterprise.
- The structure and activities of internal audit are differing among organizations; this is because the structure and activities of internal audit functions affects its overall activities, which, intends to operate. The structures and activates of internal audit function is affected by internal audit department size or number of internal auditors, the scope of internal audit function, audit plan and execution and reason of the existence of internal audit function were significant on internal audit practices and risk assessment in public enterprise.
- The internal audit department prepared annual audit plan based on Requests of senior management input, Risk-based audit plan and Control-based audit plan, but the risk-based annual audit plan is considered in setting audit priorities as compared to requests of senior management input and control based audit plan. In all public enterprise during the examination of audit evidence, analytical audit procedures are used as appropriately.
- The existence of internal audit function is to be done for the achievement of objective and adding value to the organizations, by providing systematic and

disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit departments of all selected public enterprises, were established with the primary purpose of adding value to the organizations or established by governments' imposition by law.

- The relationship between risk management and internal audit department is formally seated and clear, but that was not more implemented. To achieve its enterprises objectives, the relationship between risk management unit and internal audit functions is working together to designing and maintaining a set of control activities, to sharing or transferring the risk through contractual relationships with third parties, to avoiding the risk by choosing to change the business process to achieve the objectives in a less risky manner, to diversifying operations the risk of total loss is minimized and to accepting the risk.
- The perception of management is critical to the acceptance and appreciation, and management's expectations are significantly important for internal audit and that to promote value added and to the maturity of internal audit function with the organization. Public enterprises managements were involvements in the internal audit and other internal control staffs, in the risk assessment process that are important to achieve their goals and objective.
- Internal control is established in order to provide reasonable assurance of the effective and efficient operation, internal financial control and compliance with laws and regulations. A result also showed many public enterprises were uses COSO or ERM control models provide an effective basis for designing the internal control system. But some does not uses the control models, their control system is based on the organizations manuals procedures, policies and guidelines, and the focus is entirely addressed to monitoring and assessing control activities.

- The applying of a formal process of risk management of internal audit activity has to verify the adequacy of the risk management process that is whether management has planned and designed it in such manner that it provides reasonable assurance that the organization's objectives and goals will be achieved. A result also showed that many public enterprises were has formal risk assessment process in their internal audit function, and few enterprises were has not formal risk assessment process.

5.3 Recommendations

Based on the analysis and conclusions, the researcher forward the following recommendation for the study:-

- For effective risk management the organizations should to provide more resources and encourage staff to undertake relevant training to improve their skills in risk management, policy, control models, and risk assessment methods. Therefore, meetings, programs or seminars should be organized often, where information would be given, showing how each area of work relates to each other and to the overall success of the organization.
- The effective internal audit practices have effect on risk assessment of the organization, the role of the internal audit function in the risk management, the internal audit practice in the organization, the management perception for internal audit effectiveness, structures and activities of internal audit function and the internal audit functions in control models, and risk assessment methods were significant and important on internal audit practices and risk assessment in public enterprise. Thus, the Public enterprise management should apply more for the internal audit functions by facilitating the internal audit works, and should maintain the approved IA charter and workable manuals with IIA standards and the office policies and guidelines.
- The relationship between risk management and internal audit department is formally seated and clear. But the interaction is not as such too implemented. Therefore, proper integration should be needed between the two departments in order to manage organizational risks properly and to achieve the goals and objective.

- In few Public enterprises managements were not involve in the internal audit and other internal control staff in the risk assessment process. Therefore managements should give high attention to organization by involving internal audit staff, other internal control staff and in the risk assessment process and use their skill to identifying, evaluating, and controlling risks achieving the goals and objective.

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ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
GRADUATE PROGRAMME IN ACCOUNTING AND
FINANCE

Dear Respondent,

I am a graduate student at the St. Mary University pursuing a Master's degree in Accounting and Finance (MSC). As part of the program ,I am currently undertaking a research study on “ Internal Audit Practice Assessment in selected Ethiopian Public Enterprise”, with the aim of assessing the reasons what aspects affect performance of internal audit practice in contributing to effective public financial management in public enterprise.

Your participation in this study is essential and will be highly appreciated. Kindly spare your time to fill in the attached questionnaire which will take you approximately 20 minute to answer.

I assure you that the information provided will be treated with the utmost confidentiality and will only be used for academic purposes.

Thank you for your time and kindest regards,

Yours faithfully,

BINIYAM ABATE

Questionnaire Administered to Managers

Part I: General information

1. Level of education:
PHD MSC/MBA BA College Diploma Certificate
2. Work experience:
1- 3 years between 3-5 years between 5-10 years
Between 10-20 years More than 20 years
3. Type of your organization is;
Finance Manufacturing Merchandising Service
Construction sector
4. Number of internal auditors in your office/sector _____
5. Does internal auditing have a quality assurance program?
Yes. No.
6. Does your organization have an audit committee?
Yes. No.
7. Are auditors available /capable during implementation of recommendation?
Yes. No.
9. To whom does the internal audit department report in your organization?
Board / Audit committee
General Manger
President
Finance Department Head
Other, please specify -----

Part II: The questionnaire items (questions)

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) or circle the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = strongly disagree

A. Internal Audit Practices		SA	A	N	DA	SD
1	Internal auditors have appropriate skills to audit your department.					
2	Internal auditors possess adequate experience to understand your department's operations and procedures.					
3	Internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from any one					
4	Audit findings are correct.					
5	Audit findings are supported by sufficient evidence.					
6	Audit recommendations are constructive.					
7	I use the recommendations, criticisms and information provided by internal auditor for decision making.					
B. internal audit function		SA	A	N	DA	SD
1	Internal auditors assess the accomplishment of organization goals and objectives.					
2	Internal auditors evaluate the risk and internal control systems of the organization.					
3	Internal auditors assist the management by identifying risk exposures of the organization.					
4	Internal auditors of the organization help the management in the investigation of major fraud cases.					
5	Internal auditors identify a source of information on major frauds and irregularities.					
6	Internal auditors check efficiency and effectiveness of operating results					
C. Risk Management		SA	A	N	DA	SD
1	Effective risk management is important to the achievement of your organization's objectives.					
2	Your organization is able to allocate appropriate resources in support of risk management policy and practice.					
3	Your organization encourages and provides resources to audit staff to					

	undertake relevant training to improve their skills in risk management.					
4	Your organization's risk management policy is made known to all staff					
D. The role of internal audit in enterprise risk management		SA	A	N	DA	SD
1	Internal audit provides value to the organization in setting the risk appetite.					
2	Internal audit provides value to the organization in imposing risk management processes.					
3	Internal audit provides value to the organization in management assurance on risks.					
4	Internal audit provides value to the organization in taking decisions on risk responses.					
5	Internal audit provides value to the organization in implementing risk responses on management's behalf.					
6	Internal audit provides value to the organization in accountability for risk management.					

Additional comments:

ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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FINANCE

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Your participation in this study is essential and will be highly appreciated. Kindly spare your time to fill in the attached questionnaire which will take you approximately 20 minute to answer.

I assure you that the information provided will be treated with the utmost confidentiality and will only be used for academic purposes.

Thank you for your time and kindest regards,

Yours faithfully,

BINIYAM ABATE

Questionnaire Administrated to Internal Auditors

Part I: General information

1. Educational status
MSC/MBA BA College Diploma Certificate
2. Work experience as an internal auditor
1- 3 years between 3-5 years between 5-10 years
Between 10-20 years More than 20 years
3. Type of your organization is;
Finance Manufacturing Merchandising Service
Construction sector
4. Why the internal audit function is exists in your organization?
Add value to the organization
Imposed by the government /law/
Other (Please specify below) -----

5. Does your organization have a formal risk management department?
Yes No
6. If your answer to question (5) is Yes, Please describe the relationship between the risk management unit and the internal audit? -----

7. Has your organization used a formalized risk assessment process?
Yes No
8. Have your organization used risk assessment control models?
Yes No

9. Does the organization's management involve internal audit staff, and other internal control staff, in the risk assessment process?

Yes No

10. Are audit recommendation implemented? Timely?

Yes No

11. Are auditors assigned to areas where management required special attention (mismanagement, fraud)

Yes No 9

12. Annual internal audit plan is prepared?

Yes No

13. Requests of senior management input are considered in setting internal audit priorities? (The audit plan is prepared according to requests of senior management)

Yes No

Part II: The questionnaire items (questions)

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) or circle the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = strongly disagree

A. Management's perception of internal audit function		SA	A	N	DA	SD
1	The office has enough awareness and good perception about Internal auditing roles.					
2	The office considers internal auditing practices as a value adding activity and I work smoothly & regularly with the management.					
3	The office considers auditors to work smoothly as well as regularly with the management.					
4	The office encourages me to promote value-added activities.					
5	The office encourages me to strength internal audit function.					
6	The office encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function.					

7	The position/status of internal audit is clearly recognized by the management in my office.					
8	The office see internal auditing as providing internal assurance through investigations, check & assessment, and consultants& adviser particularly into controls associated to management performance and internal operations.					
B. The main objectives of the risk assessment activity in the Organization.		SA	A	N	DA	SD
1	The risk assessment activity is implemented in all the functions and processes of the organization					
2	Developing a systematic approach that management could use in dealing with the risk					
3	Identifying most critical areas to define the audit plan.					
4	Embracing risks in individual audit.					
5	Complying with the regulatory requirement					
C. Audit Planning and Execution		SA	A	N	DA	SD
1	Risk-based audit plan is considered in setting audit priorities.					
2	Control-based approach audit plan is considered in setting audit priorities.					
3	During the examination of audit evidence, analytical audit procedures are used as appropriate.					
D. Risk assessment control models		SA	A	N	DA	SD
1	Control models provide an effective basis for designing the internal control system.					
2	Control models provide an effective basis for control system reviews.					
3	Control models provide an effective support for the reporting of internal auditing findings.					
4	Control models are used widely in your organization.					
5	Internal auditors in your organization address qualitative issues in their work (for example, communication, management information, ethical issues, and equal opportunities).					

Additional comments:
