



**Action on External Audit Comments by Clients:
The case of organizations under Addis Ababa
City Government**

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A Research paper submitted in partial fulfillment for the Award of Master's
Degree in Business Administration

School of Management Sciences

Indira Gandhi National Open University (IGNOU)

April 2015

Addis Ababa

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CERTIFICATE OF ORIGINALITY

This is to certify that the project titled “**Actions on External Audit comments by Clients: the case of organizations under Addis Ababa City Governments.**” is an original work of the student and is being submitted in partial fulfillment for the award of the Master’s Degree in Business Administration of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution/ for the fulfillment of the requirement of a course of study.

SIGNATURE OF SUPERVISOR

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Acronyms

- AFROSAI-E–African Organization of English Speaking Supreme Audit Institutions
- SAI – Supreme Audit Institution
- INTOSAI – International Organization of Supreme Audit Institutions
- ISSAI – International Standards of Supreme Audit Institutions
- GAAP-Generally Accepted Accounting Principle
- IT Audit- Information Technology Audit
- AGs- Auditor Generals
- OAGs—Office of Auditor Generals
- A.A.OAG- Addis Ababa Office of Auditor General

Acknowledgement

First and foremost, I would like to praise almighty God for his charity, and forgiveness throughout my life and for helping me in the successful accomplishment of this paper.

I am very grateful to my advisor, AtoDerejeGelana, for his guidance in setting the research outline and his valuable comments and advice. My especial thanks go to my close friends for their moral strengthening from the very beginning of my University day up to the end of this paper preparation.

I should also like to acknowledge the support and encouragement I had from the management and staff of Office of Auditor General and for their devoted support in giving the necessary information to carry out this study.

Abstract

The boundary of the study assessing actions taken on External Audit comments by Clients and challenges faced by the auditors who involve in AA OAG.

The information's which is intended to be constructed the research paper will be conducted using primary and secondary data sources and these data will be analyzed through using descriptive analysis methods.

Finally the paper will expect to utilize the cost and time resources according to the accomplishment of progressive outcome.

1. INTRODUCTION

Accounting is an information system. Its goal is to provide information. One of the basic objectives of accounting System is to convey information through accounting reports such as Balance Sheet, Income Statement, and Fund Flow Statement. The users of accounting information are Shareholders and Investors, Creditors, Employees, Government Management, Consumers and Others [Media, Welfare Organization and Public].

Therefore, the objective of accounting information is to enable information users to make optimum decisions and the accounting information should be accumulated, analyzed, and reported in accordance with GAAP. A principle is a general law or rule adopted or professed as a guide to action and there are 3 criteria for choosing a principle which are Relevance, Objectivity and Feasibility (Ref; MS-4 Accounting and finance for Managers).

Accounting information should be verified and authenticated by auditors. An audit work focuses on verification of those transactions and authentication of financial statements conducted by internal and External Auditors.

“Auditing is a process of collection and evaluation of evidence for the purpose of reporting on economic information” ... “Auditing is the process by which a competent, independent person accumulate and evaluates evidence about quantifiable information and established criteria”, (KUMAL GUPTA & ARORA, 1996).

Auditing can be classified into:-

- Financial Audit, (Regulatory) , Compliance audit,
- Value for money (performance) audit,
- Environmental audit,
- Forensic/Investigative audits
- IT audit

An auditor can be internal or external auditor. Internal auditors are auditors employed by the organization to do an audit work and provide an independent and objective opinion to the Head of the organization and also to provide consulting service. External auditors are auditors independent of the audited organization and provide audit opinion to the third parties. In the case of Ethiopian Government External auditors are categorized as private Auditors and Government Auditors.

Government Auditing is one of the key area which helps to strengthen the financial management of the government by providing audit recommendation by conducting different audit types (financial,performance audit etc.).The Audited Public entities are expected to implement the audit recommendations otherwise audit work cannot add value. The Council and all other decision makers and the public need information about audit findings and about the action taken on those findings relating to the economic information. This independent review of economic information can help to enhance management effectiveness and strengthen financial accountability and transparency.

This study deals with the work of External Government Auditors in the Office of Auditor General of Addis Ababa city Government, to assess the responses of the audited public entities to the audit findings (Audit reports).

1.1 BACK GROUND OF THE STUDY

Accounting has played an important role by providing the financial information. This information is important to achieve the desired goals and also very essential for the efficient operation and evaluation of performance of any economic unit and this needs capable accounting system. This Study is concerned with financial information related to the public bodies. “Public body means any organ of the government which is partly or wholly financed by government allocated budget” (ProclamationNo. 16/2009; A proclamation to provide for the financial Administration of the Addis Ababa City

Government).The financial information should be verified by Auditors. A Government Audit is concerned with all public bodies which are wholly or partly financed by Government allocated budget.

In the Ethiopian Government, the Auditor Generals are established at Federal level, Regional state level and City Administration. In addition to the Office of Federal Auditor General, there are 9 Offices at regional and two Offices at city administration level (Addis Ababa and Dire Dawa) in Ethiopia.

The Addis Ababa city administration is an autonomous city with regional status in Ethiopia. The city has Public offices, a City Supreme Court, City Council headed by a Speaker and an Executive Council headed by a Mayor and the city practices parliamentary systems like the federal government.

The Addis Ababa city government office of Auditor General is re-established by Revised Charter proclamation no 361/2003 Article 26 with the objective of inspecting and report to the city council on the efficiency, performance effectiveness use of resource, utilization and administration of the city government.The Office has an Auditor general who is accountable to the council of the Addis Ababa city Government. According to the Financial Proclamation No 16/2009 issued by the City Government, “all Government entities of the city should be audited annually covering Revenue, Expenditure and Asset/Liabilities. A full coverage of financial Audit and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systematic issues”.

The Office of Auditor Generals (OAGs) **adopted financial audit manual, AFROS IA-E** (African organization of English speaking African supreme Audit institutions) and Other Audit manuals for other audits. “So far Ethiopia does not have its own Audit Standards

However, Ethiopia as a member of **AFROS IA-E** and this organization is also a member of the congress of the international organization of supreme audit institution's /INTOSAI/, the audit work is conducted based on the international Audit Standards and Adopted audit manuals (Paper presented to Accountability Conference by GemechuDubiso, Federal Auditor General of Ethiopia,03/06/2012, Adama,Ethiopia). There is declaration that governs the Supreme Audit Institutions, Known as Lima declaration. There are important issues in the Declaration such as, Audit independency, legal framework, Audit Methodology, capacity building, communication and Audit ethic, etc.(INTOSAI,1977,LIMA DECLARATION (INTOSAI<http://www.intosai.org/>)).

As stated above the OAG conduct its audit based on the International Audit Standards. The standards help to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and the funds appropriated were utilized in accordance with the appropriation act or other applicable laws and regulations of the government.

Thus the OAG, as an external government auditor to the city administration constitutionally mandated with proclamation for detailed duties and responsibilities to audit and report its opinion to the regional council; and the public Offices have a responsibility to take a corrective action based on the audit report and should response to AG.

Auditing is an important independent review of financial management **and aid to enhance management effectiveness**. Audit will be effective and add value if the clients implement the audit recommendations. But, as state in the above paragraph, there is a limitation on timely responses and implementation of the audit recommendations.

1.2 STATEMENT OF THE PROBLEM

As stated on the annual report of the A.A AGsubmitted to Addis Ababa city Council, there is a limitation in timely responses for the audit findings and lack of taking corrective action per the audit recommendation. Even though the coverage of the Office is low, some of the offices which get an opportunity to be audited are also weak to response to the audit report. There is a study for the capacity building needs assessment of Addis Ababa OAG conducted by United Nations Development Programme (UNDP) under the Democratic Institutions Programme (DIP) for three years (2010-2013). In this study, it has identified a finding of low response to audit reports by clients (Capacity building strategy of A.A. OAG).

There is also a paper presented to Accountability conference and according to this paper, “Despite improvements, implementation of audit recommendation so far are generally remained poor. Enforcement mechanisms are what are lacking and indeed it is swiftly needed to be installed, strengthening of parliamentary oversight in general and the Public Accounts Committee in particular is essential” (by GemechuDubiso, Federal Auditor General, March 6 2012).

Therefore there are some Audit findings which are appeared in the audit reports year after year and there is a problem in taking corrective action on those findings (Annual report of A.A.OAG, 2009-2012).

1.3 Objectives of the Study

1.3.1. General Objective

The general objective of this study is to assess the overall degree of response to audit findings and the attributing factors for not taking actions.

1.3.2 Specific Objective

The specific objectives are:-

- To identify the organizations usually failed to respond to audit comments,
- To identify major findings which are not get responses and not corrected per the audit comments and appeared year after year,
- To provide recommendations to improve the delay of timely responses to audit reports and suggest some ideas for improving this problem.

1.4 SIGNIFICANCE OF THE STUDY

This study will have significance in providing some clue to assist the concerned body (decision makers) to improve the financial accountability and responsibility. This can be attained by improving the financial management using the audit opinions, because audit opinion is helpful to strengthen financial accountabilities and transparency.

This study will contribute some useful recommendations to improve the limitations in audit responses and in taking corrective action by the Public sectors on the audit findings issued by the OAG of Addis Ababa city Government. The study may also contribute some ideas for further research in this area.

1.5 RESEARCH METHODOLOGY

1.5.1. Research Design

The research design in this study will be Descriptive. Based on the data available from the annual audit reports of the AG of A.A City government for the period of 2009-2012 and information gathered from the audited entities of the City, data will be classified and Trend analysis will applied in analyzing the information.

1.5.2 Nature and Source of Data

This study uses secondary data which are available from the annual reports of OAG and from the audit files of the Audited entities. In addition to the secondary data, primary data also collected from audited' officials and from the OAG Management and Auditors.

1.5.3 Sample size and Sampling Techniques

In this study Non-probabilistic sampling method is applied. The Audit Office follows a risk based audit approach by categorizing the audited entities as high risk, medium risk and low risk. The audit office covers at an average about 50 Offices by its audit yearly (Annual Audit Plan and performance reports, OAG).

This study also follows this category to assess the responses to audit reports. A judgmental sampling will be applied. Public sectors which were audited in the year 2009-2012 and do not give a response to the audit findings will be included in the study for collecting the secondary data. From the list of audited clients attached in the Annual report of the OAG at an average about 34% of them are failed to response to audit findings. From this list, the study will assess up to 20 audit reports. Ten public sectors will be included for collecting primary data.

1.5.4 Methods to be used for data collection and their relevance

In this study Structured and unstructured questionnaire will be used to collect primary information and interviewing some key management members and experts of the Audit Office (from Top Managements, Audit Managers and Team Leaders) and Top managers, financial managers of clients.

From individual Audit reports and annual reports of the Audit Office, secondary data will be collected and some other related thesis paper, legal and planning documents, official reports, proclamations, Websites and other literature reviews will be used for data collection.

The collected data will be analyzed and presented in descriptive and analytical form. This analysis will be made to know the degree of response to audit finds and assess the audit findings appear year after year, the causes will be identified and any improvement stated by the OAG in this area will also be identified. Annual reports of the OAG are relevant to this study to assess the level of responses and the action taken by the audited entities.

1.5.5 Data handling and Analysis

Data will be presented and handled using tables. Data will be analyzed using percentages, ratios and trend analysis.

1.6 Scope and Limitation of the Study

The study is limited to annual reports and individual audit reports issued by the OAG of Addis Ababa, legal and planning documents, Official reports. The primary data also limited to key officials of the A.A OAG and key officials of the public Sectors which were audited in that specific period.

In this study time and capacity constraint will be faced. Secondary data may not be suitable or available as needed or may not maintain by the OAG and lack of information sources for the analysis part and lack of commitment to respond the questionnaire on the side of Audited entities.

1.7 Organization of the paper

This study organized in four chapters. Chapter one deals with an introduction part which includes the back ground of the study, statement of the problem, objectives of the study, significance of the study, research methodology and Limitation of the Study. Chapter two deals with the literature review about the subject matter. Chapter three is the main body of the study which deals with data presentation, analysis and interprets the compiled data. Chapter four which is the last chapter deals with the summary of findings, conclusion and recommendations.

CHAPTER TWO

Literature Review

2.1 Definition

Accounting is an information system. Its goal is to provide information. One of the basic objectives of accounting System is to convey information through accounting reports such as Balance Sheet, Income Statement, and Fund Flow Statement. The objective of accounting information is to enable information users to make optimum decisions and the accounting information should be accumulated, analyzed, and reported in accordance with GAAP. A principle is a general law or rule adopted or professed as a guide to action and there are 3 criteria for choosing a principle which are Relevance, Objectivity and Feasibility (Ref; MS-4 Accounting and finance for Managers). In order to rely on the accounting information, an auditor should verify it.

Auditor is a person who examines the information under audit and expresses his opinion on the same by way of a written report and submit to the concerned body.

“Auditing is a process of collection and evaluation of evidence for the purpose of reporting on economic information”... “Auditing is the process by which a competent, independent person accumulates and evaluates evidence about quantifiable information and established criteria”.

2.2 Objectives of An audit

According to the international Auditing practice Committee (IAPC), The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared in all material respect, in accordance with an identified financial reporting framework. The phrases used to express the auditor’s opinion are “give a

true and fair view” or “present fairly, in all material respects”.....(Fundamentals of Auditing, KUMAL GUPTA, & ARORA, 1996).

Broadly now auditing is viewed as being concerned with the examination of economic information for the purpose of expressing an opinion. An auditor’s report is considered an essential tool to rely on the financial information.

Therefore Investors and other decision makers require financial information to be certified by an independent external Auditor. Many firms rely on auditor reports to certify their accounting and other information in order to attract investors, obtain loans, and improve public appearance. Now a days Accountability and Transparency is highly in demand for good governors and audit is one of the tools for strengthening accountability and transparency. Therefore the credibility and probity of financial information are proved through the audit process.

Traditionally a corporate auditor has been concerned with certification of accounts. And he expresses an opinion on the financial position of an organization. A government auditor goes a step further and he examines that the public expenditure has been incurred and revenue has collected in accordance with rules, regulations and under due authority. Recently, the traditional scope of government auditing has undergone a change. Because

- The scope of government activities has expanded and now committed to play an active role in socio-economic development of their economies.
- The scarcity of resources demands a more rational and informed decision-making in public expenditure.
- Because of the development of the democratic institutions, consciousness of the public and its representatives has also increased. There is growing demand for the

accountability of those who manage public resources.(Office of the Federal Auditor General, Performance Auditing, By Teyib Ali, 1998)

This leads to expand the scope of audit of the supreme Audit Institutions and conduct different type of Audit such as Performance Audit, IT Audit, Environmental audit, Forensic/Investigative audits in addition to Regulatory Audit(financial Audit).

2.3 Classification of audit and their related objective

An auditor can be internal or external auditor. Internal auditors are auditors employed by the organization to do an audit work and provide an independent and objective opinion to the Head of the organization and also to provide consulting service.

External auditors are auditors independent of the audited organization and provide audit opinion to the third parties. In the case of Ethiopian Government External auditors are categorized as private Auditors and Government Auditors.

Audit may be classified according to organizational structure, or based on objectives of audit or based on timing and scope of audit procedure.

Classifications according to organizational structure are statutory audit, Private Audit, Government Audit and Internal Audit. This paper concerned about the government audit of Addis Ababa City.

Government Audit is an audit of government departments and department undertakings.

Government Auditing is one of the key area which helps to strengthen the financial management of the government by providing audit recommendations by conducting different audit types (financial, performance audit etc). A Government Audit is concerned with all public bodies which are wholly or partly financed by Government allocated budget. The objective of any government auditing is to ensure whether a proper handling of public resources and effectiveness of the decisions the officials exists or not. Audit is

one of the tools to be accountable and transparent. Accountability is the obligation to answer for responsibility conferred. To ensure accountability, the relation between the three branches of the government (legislative, executive and judiciary) are need due care in terms of control and power sharing. Budget and other plans are approved by the legislative and executives implement this budget plan and other issues. The legislative needs accurate and precise information about whether the approved budget and other planned issues are properly implemented or not. In order to achieve this, it is a mandatory to have a supreme Audit Institution/SAI/, in the Ethiopian context, Government audit is performed by independent constitutional authorities. The AGs are Government Auditors established at Federal level, Regional state level and City Administration. In addition to the Office of Federal Auditor General, there are 9 Offices at regional and two 2 Offices at city administration level (Addis Ababa and Dire Dawa) in Ethiopia. So public and the government should trust the auditors that they are doing their work in a professional and credible way and to do so Audit Institutions should organize themselves according to the requirement of the profession and there should be a proper frame work or guideline for the audit work.

Auditing can be classified into:-

- Financial Audit,(Regulatory) ,Compliance audit,
- Value for money (performance) audit,
- Environmental audit,
- Forensic/Investigative audits
- IT audit

“Audit can also classify based on timing and scope of audit procedures such as:-

- Continuous audit:- when the audit work is carried on almost throughout the period

- Final audit: - when the audit work is done only after the expiry of the period to be covered by the audit. Audit work is done after the close of the financial period once in a year.
- Interim audit: - when the audit work done a part of the accounting period. Accounting records up to a certain date are checked and the rest will be audited after the close of accounting books and final financial statements are prepared.
- Balance Sheet Audit:-the auditor concentrates on items appearing in the balance sheet and the profit and loss account instead of conducting a detailed examination of entries in the books of original entry with supporting vouchers and related documents.”(Fundamentals of Auditing,KAMAL GUPTA, ASHOK ARORA)

In the context of A.A.OAG Interim audit is applied from the year of 2012 for specific Audit entities based on their risk. The Audit covers first half year as a first interim, then the second half year after the close of accounting books and financial statements are prepared for the year. (Ref. consolidated report of A.A OAG, 2013)

The terms 'regularity audit' and 'financial audit' are often used interchangeably. Such audits consist of an audit of financial statements, plus some other elements depending on the mandate of the Supreme Audit Institution.

Regularity audit entails expressing an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or statutory requirements. In addition to this, public sector auditors often have additional reporting responsibilities relating to:

- Instances of non-compliance with authorities including budget and accountability, and/or
- Effectiveness of internal control.

A financial audit, or more accurately, an audit of financial statements, is the verification of the financial statements of a legal entity, with a view to express an audit opinion. The audit opinion is intended to provide reasonable assurance, but not absolute assurance, that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework. The purpose of an audit is to provide an objective independent examination of the financial statements, which increases the value and credibility of the financial statements produced by management, thus increase user's confidence in the financial statement, reduce investor's risk and consequently reduce the cost of capital of the preparer of the financial statements. An audit is not designed to provide absolute assurance, being based on sampling and not the testing of all transactions and balances; rather it is designed to reduce the risk of a material financial statement misstatement whether caused by fraud or error. A misstatement is defined in ISA 450 as an error, omitted disclosure or inappropriate accounting policy. "Material" is an error or omission that would affect the users' decision.

Performance audit is concerned with the audit of economy, efficiency and effectiveness, and embraces:

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

with the intended impact.” (AFROSAI-E, Regularity Audit Manual, adopted by A.A OAG)

Thus by conducting performance audit or management audit, Auditors make suggestions and recommendations for improving economy and efficiency in use of resources and in making decisions. And by auditing the financial statement and expressing their opinion, audit also acts as a tool for enhancing the credibility of economic information for the users of the financial statement.

In addition to the above objectives, “Auditing also have a number of advantages for the modern society, such as;

- It acts as a tool of control over those who handle the resources belonging to other, to ensure that the resources are used properly.
- It acts as a moral check on employees, since they fear that any errors or frauds would be detected by the auditors. So it is a tool of protection against misuse of funds and it helps to reduce the possibility of errors and frauds.” (Fundamentals of Auditing, KAMAL GUPTA, ASHOK ARORA)

2.4 Some basic principles and process of audit

Auditing like other professions, it should be conducted based on the national and international standards and should have certain qualities.

The important qualities of an auditor are:-

- Integrity
- Independence
- Objectivity
- Logical Abilities
- Communication Abilities
- Tactfulness
- Technical competence

- Continuing Awareness of latest development”(Fundamentals of Auditing, KAMAL GUPTA, ASHOK ARORA)

The Office of Auditor Generals (OAGs) adopted financial audit manual, AFROSIA-E (African organization of English speaking African supreme Audit institutions) and other Audit manuals for other audits. So far Ethiopia does not have its own Audit Standards, but Ethiopia as a member of AFROSIA-E and this organization is also a member of the congress of the international organization of supreme audit institution's /INTOSAI/, the audit work is conducted based on the international Audit Standards and Adopted audit manuals (Paper presented to Accountability Conference by Ato Gemechu Dubiso, Federal Auditor General of Ethiopia, 03/06/2012, Adama, Ethiopia). There is declaration that governs the Supreme Audit Institutions, Known as Lima declaration. There are important issues in the Declaration such as, Audit independency/ legal framework, Audit Methodology, capacity building, communication and Audit Ethics etc. (INTOSIA, 1977, LIMA DECLARATION (INTOSIA <http://www.intosai.org/>)).

Auditing has its own process and principles. **According to the AFROSAI-E Audit Manual**, “The auditors should comply with ethical requirements relating for all audit engagements. A code of ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors.....A code of ethics for auditors in the public sector should consider the ethical requirement of civil servants in general and the particular requirement of auditors. The audit work should be done by a professional, unbiased, independent, and knowledgeable staff.

There are basic principles governing an audit, “such principles are:-

- Integrity i.e. honesty
- Independence, the auditor should not have personal or financial dealings which might cause a conflict of loyalty or interest;
- Conflict of interest, auditors should avoid all relationships with managers and staff of the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently;
- Confidentiality, auditors should not disclose information obtained in the auditing process to third party; and
- Professional competence and due care , auditors must not undertake work they are not competent to perform,
- Political neutrality, auditors should maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way.”(AFROSAI-E, Regularity Audit Manual, adopted by A.A OAG).

The adoption and application of a code of ethics for auditors in public sector promotes trust and confidence in the auditors and their work. An auditor has to ensure compliance with these principles in carrying out any audit.

While conducting an audit, the auditor follows a well-designed process. The main process can categorize as:-

- An auditor should identify the objective of the audit work,
- Collect a reliable, relevant evidence for the audit objective,
- Evaluate the evidence,
- Formulate his judgment based on the collected evidence
- Communicate to the concerned body through his audit report.

2.5 Audit Report and types of Audit opinion

Based on various audit techniques, an auditor collects his audit evidence and formulate his opinion and communicate to the concerned body is the last stage of the audit process.

An auditor expresses his opinion through his audit report. A good Audit report is one which is timely, accurate, objective, focus on material issues and outlines the issues clearly. Reports should be balanced, constructive, and neutral in tone when conveying the results of the audit works.

The users of the audit reports are mainly;

- auditees,
- relevant institutions (such as Parliament, Ministry of finance and concerned institutions)
- Media
- General public

In this paper the main concern is related to the actions and responses to the audit reports and findings of the external public audit. Since audit report is the end product of the audit work, an auditor should communicate his findings and recommendation by his report. Then the auditees have taken corrective action based on the audit report and respond within the period stated on the report. Audit reports are the principal means by which OAGs meet their primary performance audit objectives and are also spring boards for action. Reports should not just expose weaknesses and criticize, but acknowledge departmental achievements and attempt to show the way forward, especially in performance audit.

Types of Audit Opinion

The opinion expressed by the auditor may be Unqualified, Qualified, Adverse, or Disclaimer.

- “Unqualified opinion is issued when the auditor does not have any significance reservations/ objections/ regarding the information under audit; his opinion is unqualified (or clean) opinion.
- Adverse Opinion is just the reverse of an unqualified opinion. When the auditor concludes that he does not agree with the proposition under audit...an adverse opinion is appropriate in circumstances where the auditor has reservations on such matters as the adequacy of disclosures made in the financial statements, and the total impact of the reservations is so material and pervasive that the auditor concludes that the financial statements, as a whole, do not give a true and fair view.
- Qualified Opinion in situations where the auditor agrees to a large extent with the propositions under examination, but has certain reservations about them,.....in such a case, the auditor expresses a his opinion by describing his reservations and stating that, subject to those reservations, he agrees with the propositions under examination. It is expressed as being ‘except for’ the effects of the matters to which the qualification relates.
- Disclaimer of opinion would be appropriate where the scope of the auditor’s examination has been significantly limited and also state in his report the reasons.”(Fundamentals of Auditing, KAMAL GUPTA, ASHOK ARORA)

As stated in the above paragraphs, Government audit is a means of ensuring public accountability for the use of funds, examining compliance with standards of financial propriety, compliance with rules and regulations. And also acts as a tool for financial control

and examining the efficiency and performance of various projects and programs. Therefore, the audit reports should be submitted to the concerned body at the proper time in order to take the corrective actions. The detailed audit reports are submits to the auditee and to the controlling authorities for follow-up action. The consolidated audit results are submitted to the government and to the legislative. The parliament as well as each state legislature sets up a Public Accounts Committee to scrutinize the Appropriation Accounts and the reports of the auditors thereon.

In the context of A.A.OAG, Individual Audit reports are submitted to the controlling authority and to the audited office. The consolidated audit results are submitted to the City Council at end of the physical year. Most of the audit opinions issued by the A.A.OAG are unqualified ('except for') opinions.(A.A.OAG, Annual Reports)

In Ethiopia audit related oversight committee existed under different names in the different regions and city councils. In Addis Ababa City Administration, the committee is named as Public Accounts Committee. Audit is only useful if it adds value and recommendations are implemented. Audit recommendations should be implemented by the audited entities as soon as possible. If the audited entities fail to implement the auditor's recommendations, parliament or its oversight committee must enforce through established accountability mechanisms. Therefore, strengthening of parliamentary oversight in general and the Public Accounts Committee in particular is essential.

Chapter Three

Data presentation, analysis and interpretation

3.1 Introduction

The OAG, as an external government auditor to the city administration constitutionally mandated with proclamation for detailed duties and responsibilities to audit and report its opinion to the regional council and the public Offices, also have a responsibility to take a corrective action based on the audit report and should response to AG. Based on this the researcher try to assess the extent of responses to Audit Reports and actions taking on the Audit findings.

This study will be Descriptive. Based on the data (information) available from the annual audit reports of the AG of A.A City government for the period of 2009-2012 and information was gathered from the respondents using questionnaires. Data was classified and analyzed using tables and ratios.

This study uses secondary data which are available from the annual reports of OAG and from the audit files of the Audited entities. In addition to the secondary data, primary data also collected from audited officials and from the OAG Management and Auditors using Questionnaires.

As stated on the introduction part of this paper, for the period of 2009-2012, the Office issued on average of 50 individual Audit reports annually. The researcher took a sample of 20 from those audit reports by using judgmental sampling technique and analyzing the response of client using ratio analysis. In addition to this, 20 questionnaires were distributed for gathering information from the audit entities of the City.

The Questionnaires are closed and open ended type (Structured and unstructured type).

The researcher has designed two type of questionnaire. The first questionnaire was distributed to 20respondents (Officialsof the Audited Entities)from those questionnaires 18(90%) questionnairesare returned. The secondquestionnaire was distributed for 20 staff of the AA OAG (Management and Auditors)from thosequestionnaires17 (85%) respondents return the questionnaire.

The Questionnaires have two parts; part one which deals with the back ground (personal information) of the respondents. Part two deals about actions and responses to external audit comments; Respondents are from the Audited Organizations and OAG staff and analyzed on table two and four. The personnel information survey includes sex, age, and educational level and work experience.

Data collected from the respondents and about the personal data of the respondents are presentedand handled using tables.In addition to this, secondary data from the annual report of the A.A.OAG used in this study and presented in table 5.

3.2 Data Presentation and Analysis

3.2.1 Respondents from the AuditedOrganizations have the following personal information

Table 1

No	Item	Response	
		Number	%
1	Sex:-Male	11	61%
	Female	7	39%
2	Age:- 20-29	5	28%
	30-39	8	44%
	40-49	3	17%
	50-59	2	11%
3	Educational Level:- Diploma	-	-
	BA/BSC	16	89%
	MA/MSC	2	11%
4	Work Experience; 1-5 years	7	39%
	6-10 years	5	28%
	11-20 years	3	17%
	21-30 years	3	17%

Source:-Questionnaire

Table one (information about the back ground of respondents from Audited offices) indicates 11 out of 18 or 61% respondents are male and 7 or 39% are females. This shows that the majority of the respondents are males.

Concerning their age, 5 (28%) out of 18 respondents are between 20-29years, 8(44%) out of 18 respondents are at age between 30-39years, 3 (17%) respondents are at age between 40-49 years and 2(11%) respondents are at age between 50-59 years. This implies that the majority of the respondents (44%) are at the age between 30-39 years.Regarding the respondents' educational level, 16(89%) out of 18 respondents are BA/BSC holders, and 2 (11%) out of 18 respondents are MA/MSc holders. This shows that the majority of the respondents' educational level is BA/BSC.

Concerning the respondents' work experience, 7 (39%) out of 18 respondents have work experience from 1-5 years, 5 (28%) out 18 respondents have work experience 6-10years. 3(17%) out of 18 respondents have work experience from 11-20 years,3 (17%) out of 18 respondents have work experience from 21-30 years. Based on these data, the majority of the respondents have work experience below 11 Years.

3.2.2 Information about actions and responses to

External Audit comments:-Responses of Audited offices (clients)

Table 2

No	Description	Response	
		Number	%
1	Do you feel that the Office has qualified, experienced and competent personnel?		
	a. Yes, completely	6	33%
	b. To a large extent	12	67%
	c. To a little extent	-	-
	d. Not at all	-	-
	Total	18	100%
2	Does OAG have a formalized mechanism to receive a feedback on its performance from clients?		
	a. Yes	18	100%
	b. No	-	-
3	Does the Office have a formal communication for handing of complaints and grievances of customers?		
	a. Yes	16	89%
	b. No	2	11%
	Total	18	100%
4	What is the extent of actions and response to external Audit findings and reports?		
	a. Completely	1	5%
	b. To large extent	5	28%
	c. To little extent	12	67%
	d. Not at all	-	-
	Total	18%	100%
5	What is the extent of actions and response to external Audit findings and reports?		
	a) Completely	2	11%
	b. To large extent	11	61%
	c. To little extent	5	28%
	d. Not at all	-	-
	Total	18	100%
6	What is the extent of the implementation of the Auditor's recommendation by the clients?		
	a. Completely	1	1%
	b. To large extent	8	44%
	c. To little extent	10	55%
	d. Not at all	-	-
	Total	18	100%

No	Description	Response	
		Number	%
7	Does OAG give a reasonable time to the Audited entity to respond to Audit report?		
	a. Yes	16	89%
	b. No	2	11%
	Total	18	100%
8	Does OAG make sound recommendations that add value to the Audited entities?		
	a. Completely	2	11%
	b. To large extent	13	72%
	c. To little extent	3	17%
	d. Not at all	-	-
Total	18	100%	
9	Does OAG seek feedback from clients or stakeholders on the quality of its work, staff and system?		
	c. Yes		
d. No	18	100%	
10	Do you feel that OAG have a well trained staff in communicating effectively with audited entities?		
	a. Completely	2	11%
	b. To large extent	10	56%
	c. To little extent	6	33%
	d. Not at all	-	-
Total	18	100%	
11	Do you feel that OAG contributes to strengthen the financial management of the Government Offices by providing Audit recommendations?		
	a. Completely	3	17%
	b. To large extent	15	83%
	c. To little extent	-	-
	d. Not at all	-	-
Total	18	100%	
12	Do you feel that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have a close links and close working relationship?		
	a. Completely	5	28%
	b. To large extent	13	72%
	c. To little extent	-	-
	d. Not at all	-	-
Total	18	100%	

[Type text]

[Type text]

No	Description	Response	
		Number	%
12	Do you feel that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have a close links and close working relationship?		
	e. Completely	5	28%
	f. To large extent	13	72%
	g. To little extent	-	-
	h. Not at all	-	-
	Total	18	100%
13	Do you feel that the Audited entities have taken corrective action based on the audit recommendation and respond timely?		
	a. Completely	5	28%
	b. To large extent	13	72%
	c. To little extent	-	-
	d. Not at all	-	-
	Total	18	100%

Source: - Questionnaires

For Item number one 12 (67%) respondents answer “to large extent”, and 6(33%) respondents replied “Completely”. This shows that the majority of the Auditors of OAG are qualified, experienced and competent.

For Item 2 relating to formal mechanism to receive a feedback on the office’s performance, 18(100%) respondents are replied “yes”. This indicates that the office has a formal mechanism of receiving feedback on its performance from clients. For this item respondents state the following mechanism of receiving feedback:-

- Using questionnaire , during exit conference when each Audit work completed ,
- Hearing with public Account committee,
- Feedback from city council meeting yearly.
- Discussion with its clients once in a year as general forum.

For Item 3, 16(89%) respondents replied “yes” and 2 (11%) respondents replied “no”. This indicates that the Office of Auditor General has a formal communication for handling complaints and grievances of customer. For this question some respondents state the following method; “Questionnaires, annual general meeting forum, and during Exit Conference of each audit work.

For Item 4 out of 18 respondents 12 (67%) respondents replied “to a little extent”, 5(28 %) respondents said “to a large extent” and 1(5%) respondent says “completely”. This indicates that the extent of actions and response to audit report is a little extent.

For Item number five, out of 18 respondents 11(61%) respondents said “to a large extent”, 5(28%) respondents said “to a little extent” and 2(11%) respondents said “completely”. This indicates that the recommendations of Auditors are accepted by the majority of the clients.

Item six deals with the extent of the implementation of the Auditors’ recommendations by the clients and 8(44%) out of 18 respondents said auditor’s opinion implemented to a large extent, 10 (55%) respondents said auditor’s recommendations are implemented “to a little extent” and 1 (1%) respondent said the Auditors’ recommendation implemented “completely”. The majority of the respondents stated that Auditors’ recommendation is implemented to a little extent. This means that some of the Audit offices do not implement the Auditor’s opinion.

Item number seven that deals whether OAG gives a reasonable time to the clients to give response to Audit report, out of 18 respondents 16(89%) said “yes” and 2(11%) respondents said “no”. This result implies that the OAG gives a reasonable time to deal with the Audit report and give response to the findings.

For Item number eight of the table out of 18 respondents, 13(72%) respondents said “to a large extent”, 2(11%) respondents said “Completely) and 3(17%) respondents replied “to a

little extent”. This result implies the OAG gives sound recommendation that add value to the audited entities.

For Item number nine of the table out of the 18 respondents all (100%) respondents replied “yes”. This indicates that the Office seeks feedback from clients on the quality of its work, staff and system.

Item number ten of the table explains that out of 18 respondents, 6(33%) respondents said “to a little extent” and 2(11%) respondents said “completely”. This implies that the Office has above 50% trained staff but based on the respondents answer 33% of the staff are trained to a little extent in communicating effectively with Audit entities.

In Item number eleven of the table explains that out of 18 respondents, 15 (83%) respondents replied “to a large extent” and 3(17%) respondents said “completely”. This answer implied that OAG has large Contribution in strengthening the financial management of the Government offices by providing Audit recommendations.

In Item number twelve of the table explains that out of the 18 respondents, 5(28%) respondents are replied “to a large extent” and 13(72%) respondents replied “to a little extent”. This answer indicates that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have no strong link and close working relationship.

Item thirteen of the table explains that, out of the 18 respondents, 5(28%) respondents replied to a large extent and 13 (72 %) respondents replied “to a little extent”. This indicates that action taken based on the audit recommendation and timely response by the audit entities is to a little extent. This means that the majority of the clients does not take corrective action and do not response timely.

In Item fourteen of the questionnaire which is open ended, the respondents point out the main challenges faced to correct and why failed to responds to the findings are:-

[Type text]

[Type text]

- Lack of commitments
- Lack of due knowledge and skilled manpower,
- Lack of source documents,
- Lack of enforcement by the supervisory body,
- Perceiving audit organization as fault finder rather than fact finder,
- Action regarding responsibility and accountability not yet exercised as it should be,
- Lack follow-up from higher managements and Public Accounts Committee,
- High rate of turnover of staff in the Audit office because of unsatisfactory salary
- Lack of integration

For Item fourteen question number two , the respondents point out the major findings which are not get responses and not corrected per the audit comment and appeared year after year are :-

- “Non-compliance with appropriate laws, regulations and guidelines regarding procurement
- Weak asset management system and control(both stock and fixed asset),
- Lack of sufficient and appropriate evidences for transaction and records,
- Lack of completeness and accuracy of recording which come as a result of weak control system,
- Finding regarding accounts receivables and payables,
- Weak internal control ,
- Poor documentation and this causes accumulation of receivables and payables,
- Expenditure those have no appropriate supporting evidence”.

For item fourteen question point three, the respondents point out the impact of the problem on the financial management of the public sectors:-

[Type text]

[Type text]

- “The financial management system could unreliable, users might not rely on the financial management system ,
- Financial system lack authenticity by users,
- Cause weak accountability,
- incorrect financial position,
- Cause excess budget and transfers,
- Users and public may not rely on the financial position of the public offices and in general on the city government,
- This may mislead the higher decision makers,
- Resources may not collected.”

For question fifteen that stated what action should be taken to improve the implementation and response to audit report, the respondents point out the following issues:-

- There should be committed management,
- Those concerned staff must have adequate knowledge and skill,
- There must be motivated staff in terms of remuneration and working environment,
- The top management must give priority for these issues,
- There must be proper accountability, monitoring and evaluation system, so as employees accomplish their duties and responsibilities,
- Continuous follow-up from higher officials and public accounts committee,
- Make accountable on those who failed to correct the audit findings and to give response to audit reports.

For the last question that deals about what policy intervention or enforcement mechanisms are needed, respondents pointed out:-

[Type text]

[Type text]

- Leaders of public sector must have the necessary awareness and commitment to strengthen accountability ,
- Supervisory body must take remedial action on those who failed to comply with the government rules , regulation and directives,
- Appropriate and adequate training and coaching must be provided for those who are involved in the public sectors’ resources management,
- Those public sector leaders who failed to take action must be asked by the public and make follow-up for action,
- Strengthening Public Accounts Committee,
- Continuous capacity building program and mechanism to retain skilled and experienced staff is needed,
- Give proper attention to improve working environment and remuneration system.

3.2.3 Respondents from OAG have the following personal information

Table 3

No	Item	Response	
		Number	%
1	Sex:- Male	10	59%
	Female	7	41%
	Total	17	100%
2	Age:- 20-29	3	18%
	30-39	7	41%
	40-49	4	23%
	50-59	3	18%
	Total	17	100%
3	Educational Level:-		
	Diploma	3	18%
	BA/BSC	10	59%
	MA/MSC	4	23%
Total	17	100%	
4	Work Experience:-		
	1-5 years	3	39%
	6-10 years	7	28%
	11-20 years	3	17%
	21-30 years	4	17%
Total	17	100%	

Source:-Questionnaire

Table three (information about the background of respondents from A.A.OAG) indicates 10 out of 17 or 59% respondents are male and 7 or 41% are females. This shows that the majority of the respondents are males.

Concerning their age, 3(18%) out of 17 respondents are between 20-29years, 4(23%) out of 17 respondents are at age between 30-39years, 7 (41%) respondents are at age between 40-49 years and 3(18%) respondents are at age between 50-59 years. This implies that the majority of the respondents (41%) are at the age between 30-39 years.

Regarding the respondents' educational level, 3(18%) out of 17 respondents are diploma, and 10 (59%) out of 17 respondents are BA/BSC holders, 4(23%) respondents are MA/MSc holders. This shows that the majority of the respondents' educational level is BA/BSC.

Concerning the respondents' work experience, 3 (18%) out of 17 respondents have work experience from 1-5 years, 7(41%) out of 17 respondents have work experience 6-10 years. 3 (18%) out of 17 respondents have work experience from 11-20 years, 3 (17%) out of 17 respondents have work experience from 21-30 years. Based on these data, the majority of the respondents have work experience below 11 Years.

3.2.4 Information about actions and responses to External Audit comments:-by management and staff of the OAG

Table 4

No	Description	Response	
		Number	%
1	1. Is the Audit office established by	-	-
	a) Constitution	17	100%
	b) Proclamation	-	-
	c) Other, please state it____		
2	Does the Audit office have limited mandate from Auditing of any areas (Government Agency or Department)?	3	18%
	a)Yes	14	82%
	b) No	17	100%
	Total		
3	Does the OAG mandate give unrestricted access to information relating their audit work?		
	a) completely	12	70%
	b) To large extent	3	18%
	c) To a little extent	1	6%
	d) Not at all, completely restricted	1	6%
	Total	17	100%
4	To whom does the OAG report?		
	a) To parliament /Regional Council/	15	88%
	b) To Head of Executive	1	6%
	c) To Head of the region	1	6%
	Total	17	100%
5	Does OAG have a mandate to plan, define the scope of its audits, conducting and determining the contents of the audit reports?		
	a) Yes, completely	13	76%
	b) Yes, to large extent	2	12%
	c) Yes, to a little extent	2	12%
	d) Not at all	0	0
	Total	17	100%
6	Are the Audit reports prepared and issued in accordance with the OAG's mandate?	17	100%
	a) Yes	-	-
	b) No		

No	Description	Response	
		Number	%
7	Does OAG publish its Annual Report? a) Yes b) No	17 -	100% -
8	How the Office makes its annual report public? a) Through Website a) News papers b) By issuing copies to Stakeholders Total	3 1 13 <hr/> 17	18% 6% 76% <hr/> 100%
9	Does the Office have a research unit or department for assessing the effectiveness of OAG? a) Yes b) No	12 5 <hr/> 17	71% 29% <hr/> 100%
10	Does the Office have qualified, experienced and competent personnel? a) Yes, completely b) To a large extent c) To a little extent d) Not at all Total	5 9 3 0 <hr/> 17	29% 53% 18% 0 <hr/> 100%
11	Does OAG have a formalized mechanism to receive a feedback on its performance from external stakeholders? a) Yes b) No Total	14 3 <hr/> 17	82% 18% <hr/> 100%
12	Does OAG publish its Annual Report? a) Yes b) No	17 -	100% -
13	To what extent the audited entities response to Audit findings and reports? a. Completely b. To large extent c. To little extent d. Not at all Total	1 1 15 - <hr/> 17	6% 6% 88% - <hr/> 100%

No	Description	Response	
		Number	%
14	What is the extent of the acceptance of the Auditor's recommendation by the clients? a. Completely b. To large extent c. To little extent d. Not at all Total	3 12 2 - <hr/> 17	18% 70% 12% - <hr/> 100%
15	What is the extent of the implementation of the Auditor's recommendation by the clients? a) Completely b) To large extent c) To little extent d) Not at all Total	0 7 10 0 <hr/> 17	- 41% 59% - <hr/> 100%
16	Does OAG give a reasonable time to the Audited entity to respond to Audit report? a. Yes b. No	17 0	100% -
17	Does OAG make sound recommendations that add value to the Audited entities? a. Completely b. To large extent c. To little extent d. Not at all	5 11 1 - <hr/> 17	29% 65% 6% - <hr/> 100%
18	Does OAG seek feedback from clients or stakeholders on the quality of its work, staff and system? a. Yes b. No	17 -	100% -
19	Do you feel that OAG have a well trained staff in communicating effectively with audited entities? a. Completely b. To large extent c. To little extent d. Not at all Total	1 16 - - <hr/> 17	6% 94% - - <hr/> 100%

No	Description	Response	
		Number	%
20	Do you feel that OAG contributes to strengthen the financial management of the Government Offices by providing Audit recommendations? a. Completely b. To large extent c. To little extent d. Not at all Total	2 15 - - <hr/> 17	12% 88% - - <hr/> 100%
21	Do you feel that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have a close links and close working relationship? a. Completely b. To large extent c. To little extent d. Not at all Total	0 3 14 0 <hr/> 17	- - 18% 82% - <hr/> 100%
22	Do you feel that the Audited entities have taken corrective action based on the audit recommendation and respond timely? a. Completely b. To large extent c. To little extent d. Not at all Total	3 2 12 0 <hr/> 17	18% 12% 70% - <hr/> 100%

Source: - Questionnaires

From the above table we can see that for Item number one 17 (100%) respondents choose the response “proclamation”.

This shows that all the respondents agree that the Audit Office is established by proclamation.

For item number two 3(18%) of the respondents choose “Yes” and 14(82%) choose “No”.

This shows that majority of the respondent agree that the Audit Office have unlimited mandate for Auditing of any area.

[Type text]

[Type text]

In Item number three 12(71%) respondents choose that the OAG has unrestricted access to information relating their audit work, 3(18%) choose “to the large extent”, 1(6%) choose “to the little extent” and 1(6%) choose “completely restricted”.

From the above result we observe that most of the respondents agree on the condition in which OAG unrestricted access to information relating their audit work.

For item number four 15(88%) respondent that the OAG report to the parliament, 1(6%) choose the response to the Head of Executive and 1(6%) say to the Head of the region.

The response shows that at most all of the respondents agree that the OAG reports to the parliament.

In Item number five 13(76%) of the respondents choose that the OAG have a mandate to plan, , define the scope of its audits, conducting and determining the contents of the Audit report, 2(12%) choose “to the large extent” 2(12%) select “ to the little extent” .

This result shows that most of the respondents agree on that OAG have a mandate to plan, define the scope of its audits, conducting and determining the contents of the audit reports.

For Item number six 17(100%) of the respondents choose “Yes” and no one choose the response “No”.

The finding indicates that the audit report are prepared and issued in accordance with the OAG’s mandate.

In Item number seven 17(100%) of the respondents choose “Yes” and no one choose the response “No”.

The result shows that all of the respondents agree on the that OAG publish its Annual Report.

For Item number eight 3(18%) select “Website”, 1(6%) select “News Paper” and 13(76%) “Select by issuing copies to stakeholders”.

From the above result we observe that most of the respondents agree that the office makes its annual report accessible to the public through issuing copies.

In Item number nine 12(71%) of the respondents choose “Yes” and 5(29%) choose “No”.

The result shows that most of the respondents agreed on that the Office have a research unit for assessing the effectiveness of OAG.

For Item number ten (29%) select “Yes, completely”, 9(53%) select “to the large extent” and 3(18%) select “to the little extent”.

From the above , we can see that more than half of the respondents agree that the Office have Qualified ,experienced and Competent personnel on the other hand some respondents are not in this position.

In Item number eleven 14(82%) of the respondents choose “Yes” and 3(18%) choose “No” and Mechanisms mentioned by the respondents are Exit Conference and Questionnaires.

This indicates that almost all of the respondents accept that OAG have formalized mechanisms to receive feedback on its performance from external stakeholders.

For Item number twelve 17(100%) of the respondents select “Yes” and no one select “No”.

The result indicates that all of the respondents agree on that the Office have a method of handling of complaints and grievances of customers.

In Item number thirteen 1(6%) choose “Completely”, 1 (6%) choose “to the large extent”, 15(88%) choose “to the little extent” and no one choose “not at all”.

The above indicates that almost all of the respondents agree that the audit entities respond to the Audit findings and reports to a little extent.

For Item number fourteen 3(18%) select “Completely”, 12(70%) select “to large extent”, 2(12%) select “to large extent”, 2(12%) select “to a little extent” and no one select not at all.

The output shows that most of the respondents indicate that the Auditors recommendation is accepted to the large extent by clients.

[Type text]

[Type text]

In Item number fifteen no one select “completely”, 7(41%) select “to the large extent” 10 (59%) select “to little extent” and no one select “not at all”.

The result indicates that above half of the respondents agree that the recommendations of the Auditors are implemented to a little extent by clients.

For item number sixteen 17(100%) of the respondents select “Yes” and no one select “No”.

The above result shows that all respondents agree that the OAG gives a reasonable time to the Audited Entities to respond to the Audit Report.

In Item number seventeen 5(29%) of the respondents choose “completely”, 11(65%) choose “to large extent” 1(6%) choose “to a little extent” and no one choose “not at all”.

The above result indicates that more than half of the respondents agree on that OAG makes sound recommendation that add value to the Audited Entities.

For item number eighteen 17(100%) of the respondents select “Yes” and no one select “No”.

This shows that all respondents agree on that OAG seek feedback from clients or stake holders on the quality of its works, staff and system.

In Item Nineteen 1(6%) of the respondent choose “completely”,16(94%) choose “to large extent”, and no one choose “a little extent” and “not at all”. From this result we observe that almost all of the respondents agree that OAG has a well trained staff in communicating effectively with audited entities.

For Item number twenty 2(12%) of the respondents replied “completely”, 15(88%) choose “to a large extent” and no one choose “to a little extent, and not at all”.

From the result we can see that almost all of the respondents agree on the contribution of OAG to strengthen the financial management of the Government Offices by providing Audit recommendations.

For Item number twenty one no one select “completely” ,3(18%) respondents select “to large extent”,14(82%) select “ to a little extent” and no one select “not at all”. This response

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[Type text]

indicates that majority of the respondents feel that the oversight committees and the A.A.OAG working relationship is to a little extent.

For Item number twenty two, 3(18%) respondents select “completely”, 2(12%) choose “to large extent”, 12(70%) respondents select “to a little extent” and no one select “not at all”.

This response indicates that majority of the auditee entities have not taken corrective action to a little extent based on the audit recommendations and not respond timely.

For Item number twenty three point one the respondents point out the following main challenges faced to correct and why failed to respond to the to the findings:-

- Capacity problem,
- Some of the findings to be corrected needs detail professional work,
- Lack of commitment, accountability,
- Lack of enforcement of laws, rules and regulations,
- Negligence of higher officials, Lack of awareness ,
- High turnover of staff and officials,
- The approach of Auditors, i.e. being a fault finder,
- Not accepting mistakes,
- Undermining the Auditors,
- Contact of officials and staff is poor.

For Item number twenty three point two, the respondents state the following major findings which are not get responses and not corrected per the audit comments and appeared year after year. Findings relating to

- Fixed Assets and consumable Items,
- Payables,
- Receivables
- Stock administration,

- Incompliance with rules and regulations,
- The balance of equity due to the problems created on payables and receivables.

For item twenty three point three the respondents state the following impact of the above problems on the financial management of the public sectors:

- We cannot verify the balance of receivables and payables,
- This becomes the cause for misuse of public fund,
- It has a negative impact on effective utilization of public fund,
- It will be the cause for poor financial management and will affect the image of the country,
- It will have the impact on not knowing the real assets.

For Item number twenty four point one, the respondents gave the following responses on what actions should be taken to improve the implementation of audit recommendations and responses to audit reports:

- Higher Officials should take corrective action on audit findings and implement the Audit Opinion,
- Accountability should strengthen and enhanced,
- Follow-up is needed at each level,
- Strengthen the Audit Committee,
- Trained the higher officials about auditing and financial laws and regulations ,
- Attitude change to accept the recommendation and to implement it.

For Item number twenty four point two the respondents gave the following points on what policy interventions or enforcement mechanisms are needed to improve the implementation of audit recommendation and responses to audit reports:

- The policy should considered to develop a rewarding system for those who implement audit recommendations and responses to audit report,

- Proper action should be taken upon the employees on those who do not respond to the audit findings,
- There is a need to strengthen the Audit Committee,
- The impact of the Audit should be assessed and measured.

3.2.5 Secondary Data available from the annual audit reports:-

Data available from the annual audit reports of the A.A .OAG for the period of 2009-2012 is presented on table five and interpreted here below.

Table five

S/N	Audit year	Number of reports issued	Responses to reports		No response	Percentage of response		
			Fully	some findings only		full responses	partial responses	No response
1	2009	38	26	1	11	68%	3%	29
2	2010	28	19	-	9	68%	-	32
3	2011	62	26	10	26	42%	16%	42%
4	2012	61	15	26	20	24%	43%	33%

Source:- Consolidated Annual Reports summated to A.A City Council

For the year 2009, 38 reports were issued from. From these reports 26(68%) of the reports get full response, 1(3%) get partial response and 11(29%) of reports get no response.

For the year 2010(28%) reports were issued from these reports 19((68%) get full response and get partial responses and get 9(32%) gets no response.

For the year 2011, 62 reports were issued from these reports 26(42%)get full responses, 10(16%) get partial response,26(32%) get no response.

For the year 2012, 61 reports were issued from these 15(24%) get full response, 26(43%) get partial response and 20(33%) get no response.

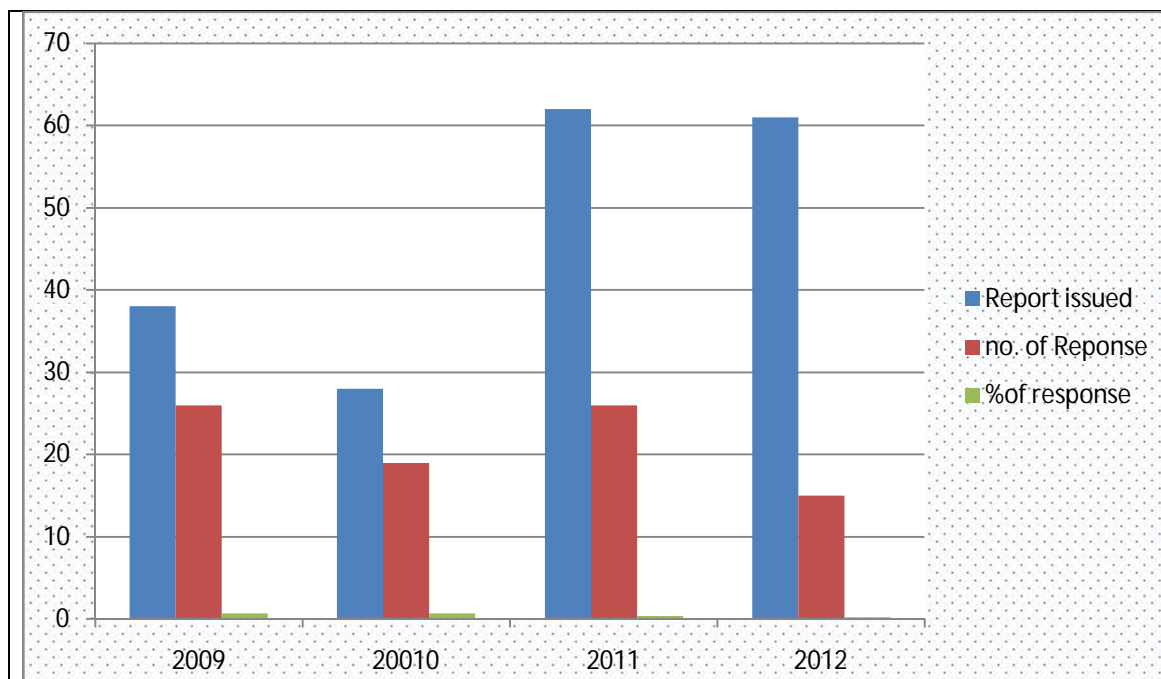
The reports issued and responses for the findings are presented in Par graph here below in order to compare and observe the trend of the facts:-

Table 5

year	Report issued	No. of Responses	% of the responses
2009	38	26	68%
2010	28	19	68%
2011	62	26	42%
2012	61	15	24%

Source: - Consolidated annual audit Report of A.A OAG

Graph 1:- reports issued and responses



Based on the above table and graph, on the average 47 Audit reports were issued annually, and there were audit works which are not completed but their field work was completed as stated on each annual report. From the reports issued on the average 21 reports were get responses. This shows that less than 50% of the audit reports are get response. On the other hand some Auditee Entities sent response to some findings only, this shows that most audit

findings were not corrected by the clients. Based on the annual report of the Office, Audit report issued for the year 2012 were 61 reports, which is greater than the year of 2009. However the responses for the findings were less in number comparing year 2012 with 2009. The ratio of the Audit report issued was increasing, but the responses of the reports were decreasing.

Chapter four

Major Finding, Conclusion and Recommendation

4.1 Major Findings

From the above analysis the researcher summarizes major findings as follows:-

- All respondents have knowledge in which the audit office is established by Proclamation.
- Respondents understand that the Audit office have unlimited mandate for auditing of any area.
- OAG give unrestricted access to information relating to their audit work ,
- Almost all respondents agree that the OAG reports to the parliaments,
- There is understanding on that OAG have a mandate to plan, define the scope of its audits, conducting and determining the contents of the audit reports,
- The audit reports are prepared and issued in accordance with the OAG's mandate,
- All respondents agree that OAG publish its Annual Reports,
- Most of the respondents agree that the Office makes its annual report to the public through issuing copies
- Above half of the respondents agree that the Office have qualified , experienced and competent personnel but the rest do not agree on this,
- OAG has a formalized mechanism to receive feedback on its performance from external Stakeholders, The Office have a method of handling of complaints and grievances of customers,
- Almost all of the respondents agree that the audit entities respond to the audit findings and reports to a little extent,

- The auditors' recommendations are accepted to the large extent by clients but the recommendation of the auditors is implemented to a little extent by the client ,
- OAG gives a reasonable time to the audited entity to respond to the audit report,
- More than half of the respondents agree on that OAG make sound recommendation that add value to the audited entities,
- OAG seeks feedback from clients or stake holders on the quality of its works, staff and system,
- Almost all of the respondents agree that the Office has a well trained staff in communicating effectively with audited entities,
- The Office contribution to strengthen the financial management of the Government Offices by providing audit recommendations is supported by almost all respondents,
- Audited Entities have taken corrective action to a little extent on audit findings and not respond timely,
- The main challenges faced to correct audit findings and why failed to respond the reports are capacity problem, lack of enforcement of Law, negligence of higher officials ,lack of awareness and high turnover and in some extent auditors' approach being a fault finder,
- The major findings which are not get response and not corrected are:-
 - Payables and Receivables,
 - Stock and Fixed Asset balances and balance of Equity,
- The impacts of not correcting the major findings are :-
 - Not knowing the balance of Receivables and Payables,
 - Misuse of public Funds,
 - Miss utilization of public Funds,
 - Weak financial management, especially in Asset management.

4.2 Conclusion

As stated in the introduction part, It is clear that Audit Profession needs clear legal framework, audit independency, audit methodology, capacity building, good communication system and audit ethic, etc. (INTOSAI,1977, Lemma Declaration (INTOSIA <http://www.intosia.org/>). In addition, quick respond for findings, proper attention from higher officials to correct findings and good remuneration system and working environment is needed to retain skilled manpower. This helps Audit to add value in strengthening the financial management and enhance accountability and transparency.

From this study the researcher get an opportunity to observethat the employees' have a clear understanding on how the audit Office is established, the mandate of the Office, to whom the Office reports, how the OAG plan and report, the function of the research unit, how the complaints and grievances of the customers handled. Regarding those issues, the researcher did not observe serious problem that incompliant with the relating international standards of Audit.

The research also shows that there is a high turnover and this affects the quality of personnel. In addition to this audit entitees response to audit findings is to a little extent, recommendation of the auditors is implemented to a little extent, the corrective actions taken by audited entities is very little, payables, receivables and equity balances are not well managed, there is weak follow up to audit report. The research also indicates that higher officials are negligent to take corrective action on audit findings, and lack of enforcement by concerned body. In this regard, all respondents have the same opinion and the fact which is presented in the annual reports also indicate those problems.

4.3 Recommendations

On the basis of the assessment the following points are recommended in order to improve the limitations in audit responses and in taking corrective action by the Public sectors on the audit findings issued by the OAG of Addis Ababa city Government.

- A strategy should be designed and implemented to motivate employees depending on their performance and real contributions and this helps to minimize the turnover of skilled manpower,
- The Law should be implemented and enforced on audit entities to respond and take corrective action on findings,
- Each public Office should implement the recommendation of the auditors' as long as it is constructive to their organization and the implementation should be follow-up by officials,
- The receivables, payables and equity of the public sectors should be managed using the appropriate laws, rules and regulation,
- Staff of the public sectors should get a proper training on financial management,
- Officials should get a proper training on how to manage finance; this helps them to know the impact of each and every mistake on the finance and the overall performance of the organization.
- Utilization of public funds should be controlled,
- The approach of auditors should be changed, this means that from being a fault finder to a one who guide or show the right direction in all aspects of the financial management,
- The attitude of public sectors should be changed by providing them a proper training on how to manage finance and finance related issues.

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Websites:-

- INTOSAI <http://www.intosai.org/>)

INDRA GANDHI NATIONAL OPEN UNIVERSITY

ST. MARY UNIVERSITY COLLEGE

ADDISS ABABA

MBA IN FINANCE

Dear respected respondent

The objective of the paper is that to asses and analyzes the existing condition of actions and responses to External Audit reports by Audited Entities.

I am here attached a questionnaire to this letter, which totally focused on the research topic which I have opted for my MBA study paper. The purpose of the questionnaire is just to collect data, which will be analyzed as part of my partial fulfillment of my MBA program. Your genuine and careful feedback will be vital to the success of this research work.

You are kindly requested to fill the questionnaire and I will collect it at your convenience on or before _____. I assure you that your response will remain anonymous and only used for my research paper.

Thank you very much in advance for allotting your time to fill this questionnaire.

With regards,

[Type text]

[Type text]

Questionnaire designed to assess actions
taken on External Audit comments:-

Part I. respondent's personal information

2) Sex :- Male Female

3) Age :- 20-29 30-39 40-49 50-59

4) Your educational level

Diploma BA/BSC MA/MSc

Other (Please specify)-----

5) Your years of work experience.

1-5 6-10 11-20 21-30

Part II. Information about actions and responses to

External Audit comments:-From Audited Entities

1. Do you feel that the Office has qualified, experienced and competent personnel?

e. Yes, completely

f. To a large extent

g. To a little extent

h. Not at all

2. Does OAG have a formalized mechanism to receive a feedback on its performance from clients?

c. Yes

d. No

State the mechanism_____

[Type text]

[Type text]

3. Does the Office have a formal communication for handing of complaints and grievances of customers?

a. Yes

b. No

State the method _____

4. What is the extent of actions and response to external Audit findings and reports?

a. Completely

b. To large extent

c. To little extent

d. Not at all

5. What is the extent of the acceptance of the Auditor's recommendation by the clients?

a. Completely

b. To large extent

c. To little extent

d. Not at all

6. What is the extent of the implementation of the Auditor's recommendation by the clients?

a. Completely

b. To large extent

c. To little extent

d. Not at all

7. Does OAG give a reasonable time to the Audited entity to respond to Audit report?

a. Yes

b. No

8. Does OAG make sound recommendations that add value to the Audited entities?

a. Completely

b. To large extent

c. To little extent

d. Not at all

9. Does OAG seek feedback from clients or stakeholders on the quality of its work, staff and system?

a. Yes

b. No

10. Do you feel that OAG have a well trained staff in communicating effectively with audited entities?

a. Completely

b. To large extent

c. To little extent

d. Not at all

11. Do you feel that OAG contributes to strengthen the financial management of the Government Offices by providing Audit recommendations?

a. Completely

b. To large extent

c. To little extent

d. Not at all

12. Do you feel that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have a close links and close working relationship?

a. Completely

b. To large extent

c. To little extent

d. Not at all

13. Do you feel that the Audited entities have taken corrective action based on the audit recommendation and respond timely?

a. Completely

b. To large extent

c. To little extent

d. Not at all

14. If your answer for question 13 is C or D , in your opinion
- 14.1 What are the main challenges faced to correct and why failed to respond to the findings?
- 14.2 What are the major findings which are not get responses and not corrected per the audit comments and appeared year after year?
- 14.3 What is the impact of this problem on the financial management of the public sectors?
15. In order to improve the implementation of audit recommendation and responses to audit reports:-
- 15.1 what action should be taken
- 15.2 What policy interventions or enforcement mechanism are needed?

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Dear respected respondent

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[Type text]

[Type text]

You are kindly requested to fill the questionnaire and I will collect it at your convenience on or before _____ . I assure you that your response will remain anonymous and only used for my research paper.

Thank you very much in advance for allotting your time to fill this questionnaire.

With regards,

[Type text]

[Type text]

Questionnaire designed to assess actions taken on

External Audit comments by Audited Entities:-

Part I. respondent's personal information

6) Sex :- Male Female

7) Age :- 20-29 30-39 40-49 50-59

8) Your educational level

Diploma BA/BSC MA/MSC

Other (please specify)-----

---- Your years of work experience.

1-5 6-10 11-20 21-30

Part II. Information about actions and responses to

External Audit comments:-From OAG Staff And Management

2. Is the Audit office established by

d) Constitution

e) Proclamation

f) Other, please state it _____

2. Does the Audit office have limited mandate from Auditing of any areas (Government Agency or Department)?

a) Yes b) No

If your answer is yes state the Agency or Department _____

3. Does the OAG mandate give unrestricted access to information relating their audit work?

a) Yes, completely

b) To large extent

c) To a little extent

d) Not at all, completely restricted

[Type text]

[Type text]

4. To whom does the OAG report?

a) To parliament /Regional Council/

b) To Head of Executive

c) To Head of the region

5. Does OAG have a mandate to plan,define the scope of its audits, conducting and determining the contents of the audit reports?

a) Yes, completely

b) Yes, to large extent

c) Yes, to a little extent

d) Not at all

6.Are the Audit reports prepared and issued in accordance with the OAG's mandate?

a)Yes

b)No

7. Does OAG publish its Annual Report?

c) Yes b) No

8. How the Office makes its annual report public?

a) Through Website

d) News papers

e) By issuing copies to Stakeholders

9. Does the Office have a research unit or department for assessing the effectiveness of OAG?

b) Yes b) No

10. Does the Office have qualified, experienced and competent personnel?

a. Yes, completely

b. To a large extent

c. To a little extent

d. Not at all

[Type text]

[Type text]

11. Does OAG have a formalized mechanism to receive a feedback on its performance from external stakeholders?

a. Yes

b. No

State the mechanism_____.

12. Does the Office have a method of handing of complaints and grievances of customers?

a. Yes

b. No

State the method_____

13. To what extent the audited entities response to Audit findings and reports?

a. Completely

b. To large extent

c. To little extent

d. Not at all

14. What is the extent of the acceptance of the Auditor's recommendation by the clients?

a. Completely

b. To large extent

c. To little extent

d. Not at all

15. What is the extent of the implementation of the Auditor's recommendation by the clients?

a. Completely

b. To large extent

c. To little extent

d. Not at all

16. Does OAG give a reasonable time to the Audited entity to respond to Audit report?

a. Yes

b. No

17. Does OAG make sound recommendations that add value to the Audited entities?

- a. Completely
- b. To large extent
- c. To little extent
- d. Not at all

18. Does OAG seek feedback from clients or stakeholders on the quality of its work, staff and system?

- a. Yes
- b. No

19. Do you feel that OAG have a well trained staff in communicating effectively with audited entities?

- a. Completely
- b. To large extent
- c. To little extent
- d. Not at all

20. Do you feel that OAG contributes to strengthen the financial management of the Government Offices by providing Audit recommendations?

- a. Completely
- b. To large extent
- c. To little extent
- d. Not at all

21. Do you feel that The Audit Oversight committees (Public Accounts Committee and other standing committee) and the A.A OAG have a close links and close working relationship?

- a. Completely
- b. To large extent
- c. To little extent
- d. Not at all

22. Do you feel that the Audited entities have taken corrective action based on the audit recommendation and respond timely?

- a. Completely
- b. To large extent
- c. To little extent
- d. Not at all

23. If your answer for question 22 is C or D, in your opinion

23.1 What are the main challenges faced to correct and why failed to respond to the findings?

23.2 What are the major findings which are not get responses and not corrected per the Audit comments and appeared year after year?

23.3 What is the impact of this problem on the financial management of the public sectors?

24. In order to improve the implementation of audit recommendation and responses to audit reports:-

24.1 What action should be taken or

24.2 What policy interventions or enforcement mechanism are needed?