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Internal audit effectiveness: an Ethiopian public sector case study

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Abstract

Purpose– The purpose of the study is to identify factors impacting the effectiveness of internal audit services.

Design/methodology/approach– Based upon a case study of a large public sector higher educational institution in Ethiopia, the paper examines how internal audit quality, management support, organizational setting, auditee attributes, and the interplay among these factors, influence internal audit effectiveness.

Findings– The findings of the study highlight that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness.

Research limitation/implications– As in all case studies, the generalisability of the conclusions is limited.

Originality/value– Internal audit services have apparently hitherto been the subject of limited examination. However, this study, in arguably the most thorough treatment so far, highlights the areas requiring improvement.

Introduction

Internal audit effectiveness, the extent to which an internal audit office meets its *raison d'être*, is arguably a result of the interplay among four factors: internal audit quality; management support; organizational setting; and attributes of the auditee. An internal audit function's capability to provide useful audit findings and recommendations would help raise management's interest in its recommendations. The management support with resources and commitment to implement the internal audit recommendations is essential in attaining audit effectiveness. Also, the organizational setting in which internal audit operates, i.e. the organizational status of the office, its internal organization and the policies and procedures applying to each auditee, should enable smooth audits that lead to reaching useful audit findings. Further, the capability, attitudes and level of cooperation of the auditee impact on the effectiveness of audits.

Therefore, internal audit effectiveness should be viewed as a dynamic process that is continuously shaped by the interactions among the four factors mentioned above. This study examined, using case study analysis, the internal audit service of a large public sector organization. The paper is structured as follows. The next section presents a review of the related literature; introduces a model for analysing audit effectiveness; and provides the research question. The third section presents the research methodology; fourth section provides empirical analysis based on a case study; and fifth section presents a summary of the findings. The paper then summarizes the conclusions, noting limitations of the study and suggesting avenues for future research.

Internal audit effectiveness

The Institute of Internal Auditors (IIA, 1999a) defined internal auditing as:

... an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This definition signifies that internal audit has undergone a paradigm shift from an emphasis on accountability about the past to improving future outcomes to help auditees operate more effectively and efficiently (Nagy and Cenker, 2002; Stern, 1994; Goodwin, 2004). Since, the definition equally serves both the private and the public sectors (Goodwin, 2004), it is used in this study as a basis to analyse public sector internal audit effectiveness.

Internal audit is effective if it meets the intended outcome it is supposed to bring about. Sawyer (1995) states, "... internal auditor's job is not done until defects are corrected and remain corrected." Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services. Based on the results of a consultative forum that focused on improving public sector internal audit[1], Van Gansberghe (2005) identified perceptions and ownership; organization and governance framework; legislation; improved professionalism; conceptual framework; and also resources as factors influencing internal audit effectiveness. Effective internal audit undertakes an independent evaluation of financial and operating information and of systems and procedures, to provide useful recommendations for improvements as necessary.

The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large (Dittenhofer, 2001). Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations.

Prior literature relating to internal audit effectiveness has either focused on the internal audit's ability to plan, execute and objectively communicate useful findings (Xiangdong, 1997; Spraakman, 1997; Dittenhofer, 2001); or taken a broader view and included factors that

transcend the boundary of a single organization (Van Gansberghe, 2005). This paper attempts to introduce a new perspective for evaluation of internal audit effectiveness by identifying factors within an organization that impact on audit effectiveness. A model, which assumes that there is a common interest to achieve organizational goals for auditee management, top management and internal audit, is used for analysis of this case study. Since, audit effectiveness fosters the achievement of a common goal, there would be a natural incentive in an organization to improve it. The model considers four potential factors – internal audit quality, management support, organizational setting, and auditee attributes to explain audit effectiveness, and shows how the interaction of these factors improves audit effectiveness as shown in Figure 1.

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000). As shown in Figure 1, audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

Audit findings and recommendations would not serve much purpose unless management is committed to implement them. Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995).

Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditees. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve. The auditee attributes relate to the capability of the auditee to meet its intended objectives. Auditee attributes with implications on audit effectiveness include the auditees' proficiency to efficiently and effectively meet organizational sub-goals; their attitude towards internal audit; and the level of cooperation provided to the auditor.

Since, the four factors discussed above are intricately linked, audit effectiveness is a dynamic process that results from the effect of each factor and the interplay among all. As shown in Figure 1 (with boldface arrows), audit quality and management support strongly affects audit effectiveness. Better audit effectiveness, in turn, has a positive bearing on these two factors. If internal audit enhances quality to the extent it elicits management's interest, management support would be a natural *quid pro quo* because the management would realize the contribution of internal audit to the achievement of organizational goals. This would positively reflect on audit quality and enhance audit effectiveness. The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness. Further, management retains the authority to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn, benefits audit quality.

The objective of this study is to address the following research question:

RQ1. How do audit quality, management support, organizational setting, auditee attributes, and the interplay among them, influence audit effectiveness in a public sector organization?

Methodology

The case-study method is chosen because it enables the conduct of a detailed analysis using multiple sources of data (Soy, 1997). A large public sector higher educational institution in Ethiopia was chosen for the study. To assist the external validity of conclusions drawn, it should be noted that there are commonalities in policies, procedures and organizational contexts of most public sector entities in Ethiopia and the same internal audit manual is used by all public bodies in Ethiopia (Ministry of Finance and Economic Development, 2004). To enhance the quality of data through triangulation, multiple data sources were used. Primary data were collected via questionnaires distributed to internal audit personnel and an interview was conducted with the internal audit director. A review of relevant documents – audit plans, audit programs, working papers, audit reports and audit manuals, all served as means of generating secondary data. The interview and document examination were used to corroborate the patterns that evolved from the data collected via questionnaires, so that the validity of the findings could be enhanced. Following the formulation of the model for analysing audit effectiveness, which is used as a framework, a case study protocol was developed to serve as the guide in designing data collection instruments, collecting the data, analysing the data; and drawing conclusions.

The empirical analysis was done in two phases. In the first phase, organizational setting, management support, auditee attributes, and some sub-factors of the audit quality factor were addressed. In the second phase, the study evaluated the internal audit office's capability to offer quality service to its “customers.”

Analysis of case study evidence

Background

The issuance of Ministry of Finance directives in 1942, which focused on public sector fund utilisation, marked the development of modern auditing in Ethiopia (Kinfu, 1990). The formation of the Office of the Auditor General[2] in 1961 (Government of Ethiopia, 1961) with subsequent refinements of duties and responsibilities in 1979 (Government of Ethiopia, 1979) and 1987 (Government of Ethiopia, 1987) was another significant development in public sector auditing in the country. The Office of the Auditor General undertakes external audits of government ministries and their respective offices to ensure accountability.

Public sector organizations are also required to have internal audit functions to support effective management. The Ministry of Finance and Economic Development has the authority to issue internal audit manuals for use by all organizations that are wholly or partially financed by the government budget (Government of Ethiopia, 1996). The Ministry has issued a manual that contains a code of ethics for internal auditors and procedural guidance on the conduct of audits (Ministry of Finance and Economic Development, 2004). Internal audit standards of the Ethiopian Government, specified in the manual, closely match those published by the IIA.

Woldegebriel (1994) highlighted an historical sketch of internal auditing and the future prospects of the profession in Ethiopia, and Argaw and Desta (1994) have described the status of public and private sector auditing in Ethiopia. Since, then, there have been no other studies

on internal audit services in general and its effectiveness in particular from an Ethiopian perspective. The gap in the literature provided the focus for this study.

The study was conducted at a university in Ethiopia with over 25,000 students. The university operates with ten faculties (each with various departments); two schools and five institutes. The President is the Chief Executive Officer of the university, assisted by an Academic Vice President (AVP) and Vice President for Business and Development (VPBD). Three Associate Vice Presidents assist the AVP: Associate Vice President for Undergraduate Programs; Associate Vice President for Research and Postgraduate Studies; and Associate Vice President for Continuing and Distance Education. The planning and budget officer, human resource and procurement officer, and the finance officer assist the VPBD. Figure 2 shows the organizational structure of the university.

The Internal Audit Office (hereafter referred to as the office) of the university provides management with information about the adequacy and effectiveness of the institution's system of internal controls and the quality of operating performance *vis-à-vis* established standards. The Office aims to assist the management in the effective discharge of the latter's responsibilities by providing objective analyses, appraisals, and recommendations concerning the university's systems and activities. Analysis of the four factors influencing audit effectiveness in the organization studied is presented next.

Internal audit quality

Internal audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored. The performance standards of the IIA (1999b) require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits. To evaluate these determinants of audit quality, evidence from questionnaire responses and an interview with the Director of the Internal Audit Office were used. To support the results, supplementary information was collected through a review of relevant documents.

Staff expertise

The IIA's standard 1210 on proficiency of the auditor requires that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999b). There are 14 auditors in the internal audit office of the university in this case study. Questionnaires were distributed to all the auditors. Interviews were conducted with the director as mentioned above to support the results. Five auditors are permanent employees and the rest are temporary employees. There are two auditors with a first-degree qualification; eight with college/university diploma; and four with technical and vocational school certificates. Four auditors are pursuing education for a first-degree qualification, and responded that they are interested in attending courses for the purpose of gaining a professional qualification, such as for certification as an internal auditor, providing the employer provides financial support. Since, internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. The university's internal audit office is characterized by high staff

turnover. The respondents' average tenure was 5.53 years; ten auditors have less than three years of service in the office, and are serving with a temporary contract of employment. There are three employees with more than ten years experience in the institution, though their level of education is at technical school certificate.

Given the high level of staffing with temporary employees, the difficulty of recruitment and retention of auditors with the right technical proficiency is evident. Responses to open-ended questions in the questionnaire revealed that the auditors view the office as given insufficient attention in terms of staffing. Continuous skill upgrading is another dimension that deserves attention so as to achieve a high level of technical proficiency. The responses to the questionnaires indicate that all auditors have attended at least one job related short-term training course in the past three years (an average of 95.08 hours per staff for the three year period 2003-2006)[3]. Regular provision of short-term training with proper assessment of needs would greatly upgrade the technical competence of auditors. Long-term professional development schemes (e.g. with the objective of attaining internal audit certification) would also be imperative, but the university's internal audit office did not plan to do much in this regard.

Responses to questionnaires show that the internal audit office at the university is not performing up to the expectation of the respondents, one of the reasons frequently cited being inadequate staff expertise (ranked second by six respondents and third by three). Table I shows the summary of the responses.

Scope of service

Questionnaire responses and an examination of audit reports signify that the University's internal auditors are involved in a range of audit assignments – financial audit[4], compliance audit[5], and performance audit[6]. However, the auditors are not engaged in the full range of activities as might be expected by professional standards, e.g. auditors are not involved in the audit of special projects and consulting for the auditees. Uniqueness of each project and the fact that specific requirements usually apply on projects would make project audits one of the areas that require audit attention. Questionnaire responses and interview results indicate that the scope of internal audit services of the university is not sufficient, since risk assessments and audits are undertaken only on regular activities, and not on projects.

Planning

Planning is generally considered a vital audit activity and it includes preparing a strategic plan, annual plans and programs for individual audit assignments. The operational standard No. 500 of the Internal Audit Standard of the Government of Ethiopia, dealing with the planning aspects of the internal audit, requires the preparation of a strategic plan – usually a five-year plan, a periodic (annual) plan and plans for individual audit assignments. The university's internal audit office does not develop a strategic plan, the exercise of which would have enabled the audit staff to evaluate risk and identify high-risk areas that deserve audit attention. It could also have been an exercise by which the head of internal audit ensures the appropriateness of resources by projecting requirements in a timely fashion.

The Internal Audit Office of the university prepares annual plans for its operations. The study reviewed the annual audit plan of the 2005/2006[7] budget year as a sample and observed that the plan is comprehensive enough. Nonetheless, an annual plan prepared as a subset of a strategic plan would have been more useful. An effective internal audit function requires the

head of the internal audit office to periodically report to senior management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. There is no such practice in the university and the Internal Audit Office communicates with top management only via annual audit plans and the reports on individual audit assignments.

Fieldwork and quality review

Fieldwork involves performing the tasks identified in the audit programs to collect evidence for assessment of the auditee's current operations considering identified audit criteria. The fieldwork should be recorded in audit working papers in a consistent and standardized manner. The Government of Ethiopia Performance standard No. 710 requires proper documentation of audit work (Ministry of Finance and Economic Development, 2004). A review of files in the study indicates that the Internal Audit Office of the university does not apply standardized ways of documenting audit work. This would make it difficult to effectively control the audit.

The audit team leaders undertake a thorough quality review of the audit working papers and draft reports to ensure that the audit work has been performed as planned and is documented properly. The review is done to ensure that conclusions and findings are supported by sufficient appropriate evidence. After the review, the audit director decides whether to make changes prior to issuance of the final report (Reporting is discussed in detail later).

Proper planning enables accomplishment of a large number of audits in a given period by improving efficiency. Interview results show that roughly more than 75 percent of the audit engagements are completed in the budgeted time and the number of actual audits performed in a period is usually less than the number of audits stated in the annual audit plan. This is usually caused by *ad hoc* audit assignments by the management and urgent requests by external parties such as the Ethiopian Federal Police Commission and the Ethiopian Federal Ethics and Anti-corruption Commission. *Ad hoc* audit assignments signify the relevance of internal audit to management (Van Gansberghe, 2005), and reflect positively on audit effectiveness.

Audit communications

Though audit communication takes place throughout the period of fieldwork, written audit reports are issued upon completion of audits. The auditors hold an exit conference with the auditee to discuss the audit findings in the draft audit reports. Exit meetings provide an opportunity to resolve questions or concerns of the auditee on audit findings before the final audit report is released. The internal audit reports of the university include letters of transmittal, signed by the director, that include a summary of findings and recommendations. It also includes the main report signed by the auditors that comprises the introduction, the objectives of the audit, findings of the study and recommendations.

The reports also highlight satisfactory achievements of the auditee. This helps improve the auditees' image of the auditor (Van Gansberghe, 2005) and hence, contributes positively to audit effectiveness. Since, there is a tendency for internal auditors to be seen as critics, auditors should possess the ability to criticise wisely and motivate people to improve (Sawyer, 1995). Adding a perspective on positive aspects of the auditee's operations in the audit reports, counter the tendency of auditees to consider the internal auditors as critics. The audit reports are addressed to the president of the university, but copies are not provided to the concerned vice president and to the auditee's head. As a result, the auditees would not

have a reference point for taking corrective actions following the internal audit reports. The lack of common reference between the auditors and the auditee would also undermine the ease with which internal auditors could undertake follow-up on the implementation of audit recommendations.

The internal audit office does not have formal follow-up procedures to ensure whether corrective actions are taken as per the recommendations. Though the management should take responsibility for the risks of not implementing the audit recommendations, it should be the responsibility of internal audit to follow-up the results (Walker, 1996). Keating (1995) claims that the internal audit work is only beginning when audit reports are issued. This emphasises that follow-up is critical to bring about audit outcomes. If follow-up is weak or absent, the impetus gained by audit recommendations will be lost and the credibility of internal audit will suffer. If follow-up is absent, highlighting the status of unresolved past audit issues could minimise its effect. However, the audit reports of the university do not separately detail the status of past audit results.

No matter how well the internal auditor has planned and performed the audit or how significant the findings, the report may fall into disuse unless the audit report is of high professional quality to motivate the readers to take corrective measures concerning the deficiencies cited. In addition, since auditors use the audit reports for a preliminary review in subsequent audits, improved quality of the reports will have a positive contribution to the quality of subsequent audits. Although flexibility is possible in developing audit reports, it is imperative to prepare them in a standardized format. Five sample audit reports – one from 2002 to 2003, one from 2003 to 2004, and three from the 2004 to 2005 fiscal year – were examined for this study. Overall, a review shows that the audit reports are well organized and of sufficient quality. Yet, improving quality of the reports by presenting them in a more consistent format; highlighting the recommendations for improvement separately from those seeking immediate corrective action; providing a copy of the reports to the auditee and the vice-president to whom the auditee reports; and reducing the seemingly voluminous appearance of the reports, could help enhance the quality of audit communications.

Management support

Management support is one of the two most important factors (the other being internal audit quality) influencing audit effectiveness. In response to the question: “how often are the audit recommendations implemented?” none of the respondents replied “Always”; only one replied “Usually”; eight replied “Rarely”; one replied “Never”; and four did not respond to the question. As the response indicates, the auditors feel that the university does not sufficiently utilise audit reports (Table II). All the respondents replied that the management's response to the internal audit findings and recommendations is generally not adequate. This would have far reaching implications on the auditor's attitude towards improving audit quality, their commitment to develop a career as internal auditor in the university and their job satisfaction. Hence, the findings imply a profound adverse impact on audit quality.

Responses to questionnaires reveal that the internal audit office of the university is not as effective as the auditors would have expected. The most frequently cited reason that is ranked first by nine respondents is inadequate management support for the office. Table I for a summary of the responses.

Since, the results of a fraud audit are among the most sensitive to attract management's attention, separate questions on fraud were included in the questionnaire to seek information

on the management's response to audit findings. Seven respondents replied that they have undertaken a fraud audit; three responded they had not done a fraud audit; and four did not provide a response to the question. Those who indicated that they were involved in a fraud investigation were given an open-ended question to provide their assessment regarding the outcome of their audit recommendations. The responses reveal that all auditors feel that their reports did not achieve the anticipated outcomes since one-time measures are taken rather than preventive measures to improve controls to deter the occurrence of similar cases.

Organizational setting

Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices.

Organizational status and internal organization

The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited. The internal audit function of the university is operating as an office reporting to the President (Figure 3). This provides the office with the requisite independence from the auditees.

Proper internal organization is also vital to achieve audit effectiveness. In this regard, the internal audit office has a director and two team leaders – management audit and financial audit. In addition, independence of individual auditors is essential to the effectiveness of the internal audit function. Independence of individual auditors could be achieved, *inter alia*, by auditor rotation and not assigning auditors to engagements with which they had executive or other relationships that are deemed to compromise objectivity, e.g. consulting auditees in design and implementation of systems. Questionnaire responses and interview evidence reveals that the university's internal audit office attempts to ensure independence by not assigning auditors to areas in which they had previous executive responsibility or any consulting involvement.

Autonomy on budgets is another sub factor relating to the organizational setting, as it entails resource implications. The internal audit office of the university is not a budget centre. It does not directly administer its budget because it is under the office of the President for budget purposes. Evidence from interviews and questionnaire responses indicate this lack of authority for budget administration adversely influences performance of the internal audit office.

Organizational policies and procedures

In order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged. Also, the results of the internal audit services help improve those policies and procedures. The policies and procedures for the organizational practices in the institution studied are those applying to the public sector organizations in Ethiopia. This component of the organizational setting factor rates fairly in terms of its influence on audit effectiveness.

Auditee attributes

To achieve effective audit work, the auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee. The ease of access to required records in the university varies among the units audited. Responses to the questionnaires and interview questions show that some departments (e.g. the personnel department) properly maintain their records and provide full access to the auditors. Whereas, others such as the finance department provide full access to records, though complete records as might be expected by the auditors are, at times, lacking. Still some other departments, such as purchasing, are at times reluctant to cooperate with the auditors.

The capability of the auditees to meet their objectives also reflects on audit quality. The interview responses and data from the questionnaire reveal that the poor record management system in some areas is more pronounced than the difficulty of access to files. The level of cooperation of the auditee and auditee capability in light of established criteria are nevertheless sound enough not to adversely influence audit effectiveness.

Summary of findings

Based on the analyses of information presented above, the following findings were noted. The Internal Audit Office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service. The internal audit office reports to the President – the chief executive officer – but the office does not administer its own budget.

Internal audit recommendations are not afforded enough attention. Though the audit reports are generally well prepared, they do not separately highlight the status of past audit results and they could be presented in a more consistent way. Besides, the audit evidence is attached to the reports. This provides a bulky appearance to the audit reports and reduces readability. The distribution of the audit reports is limited – the report is addressed to the President, but copies are not provided to other senior management officers to which the auditee reports. Furthermore, there is no mechanism in place to follow-up implementation of audit recommendations.

The internal audit office does not prepare strategic plans. The absence of a strategic plan would minimise audit effectiveness by undermining the office's ability to prepare well-thought annual plans, assist management in managing risk and determine its projected resource requirements in due time. The scope of internal audit services is limited to the audit of regular activities. The Internal Audit Office does not apply consistent documentation styles for audit work.

Audit quality and management support significantly influence audit effectiveness in the organization studied. Organizational setting, except for the budgetary status of internal audit, enables effective internal audit and the attributes of the auditees are apparently not significant enough to undermine audit effectiveness.

Concluding comments

This study investigated the internal audit service of a large public sector higher educational institution, to identify factors influencing internal audit effectiveness, using a model developed for the analysis. The model consisted of four interrelated factors: internal audit quality; management support; the organizational setting; and attributes of the auditees.

The findings of the study reveal that the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimise staff turnover so as to foster audit effectiveness. The organizational status and internal organization of the internal audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilisation.

The scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. Management's commitment in providing greater attention to internal audit recommendations and staffing the office with well-qualified employees deserves attention in this study. The internal auditors, under the impression that their reports are not sufficiently utilised by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes.

The study has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting.

The limitation of this study is readily apparent. As in all case studies, the generalisability of the findings and the conclusions drawn is limited, although the study does provide evidence of the problems internal auditors face in providing an effective service to management. Further, research could be welcome to fully understand the level of internal audit effectiveness in the Ethiopian public sector *vis-à-vis* its private sector, with a view to highlighting differences, if any, and conclusively defining the variables affecting internal audit effectiveness in Ethiopia.

Figure 1 Factors influencing internal audit effectiveness

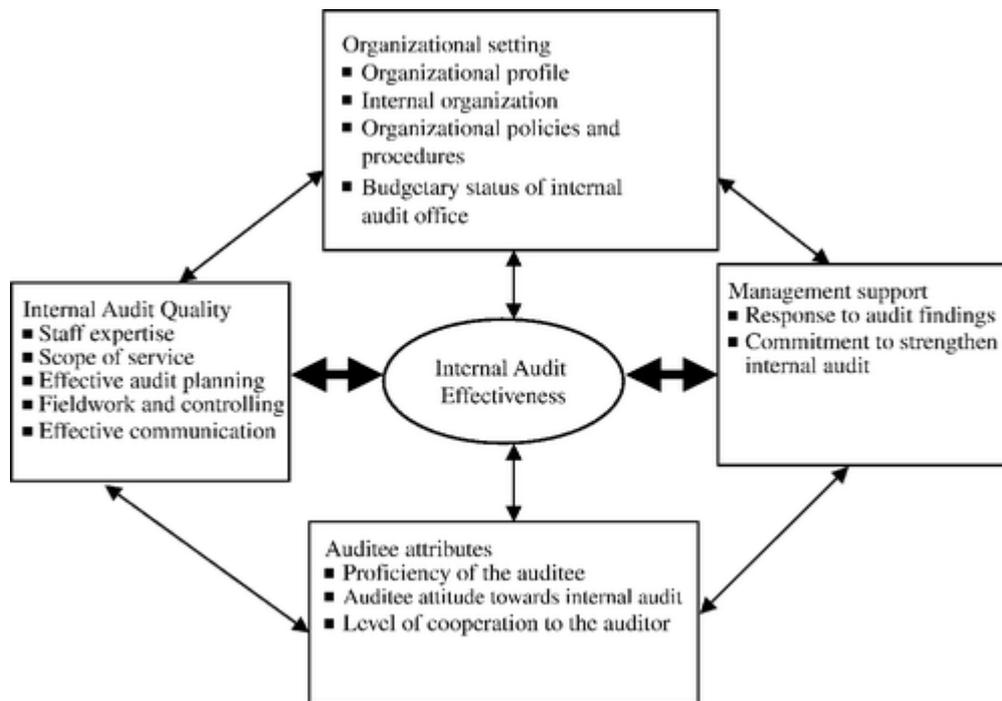


Figure 2 Organizational structure: an Ethiopian university

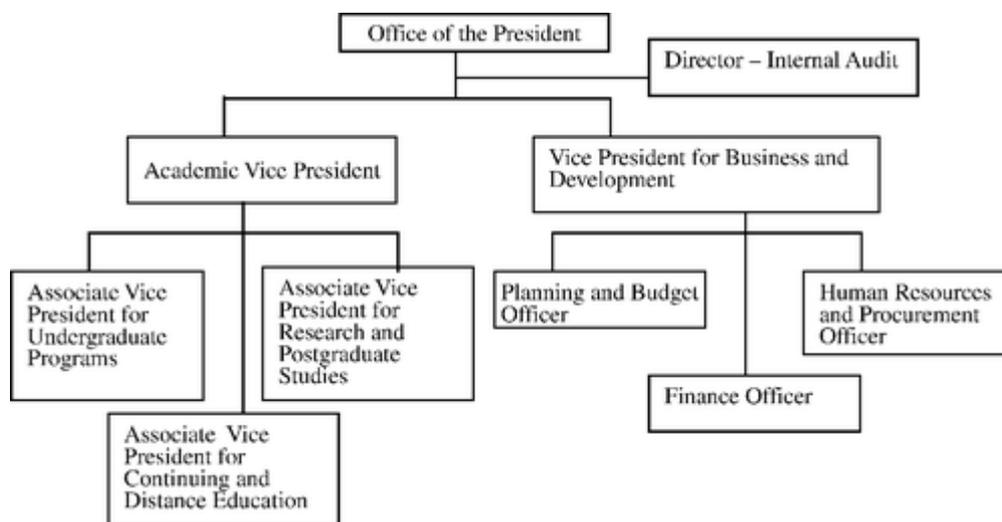


Figure 3 Organizational structure: Internal Audit Office of the university

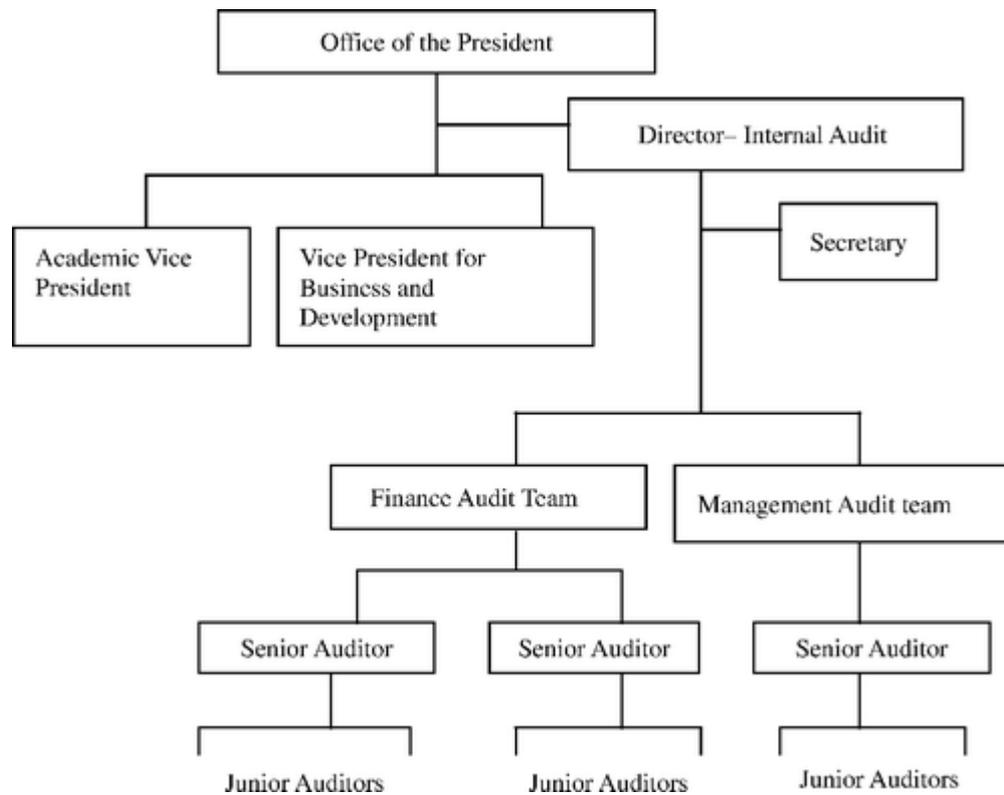


Table I Ranking of factors affecting audit effectiveness in order of importance

No.	Factor description	Number of respondents who			
		Ranked first	Ranked second	Ranked third	Provided no ranking
1	Inadequate management support	9	0	0	
2	Low proficiency of auditors	0	6	3	
3	Wrong perception of auditees	0	0		
4	Lack of clear policies and procedures for auditees activities	0	0		
5	Lower status of internal audit office in the organizational structure	0	0		
6	Poor internal organization of the internal audit office	0	0		
7	Others (specify) ^a		0		
8	No ranking provided				5
	Total responses	9	6	3	5

Table I. Ranking of factors affecting audit effectiveness in order of importance

Note: ^aThe other factors specified include: lack of motivation, lack of authority on budgets, wrong attitude of the management towards internal audit

Table II Auditors assessment of level of implementation of audit findings

No.	Description of response	Number of responses	
		Each response	Total
1	Never implemented	1	
2	Rarely implemented	10	
3	Usually implemented	3	
4	Always implemented	0	
5	Have no information	0	14
6	Overall, the management's response to audit findings is insufficient	14	
7	Overall, the management's response to audit findings is sufficient	0	14

Table II.
Auditors assessment of level of implementation of audit findings

Notes

- The World Bank and the IIA hosted the consultative meeting. It focused on improving public sector internal audit and attendees included Ethiopian stakeholders of public sector internal audit.
- Office of the Auditor General is in charge of auditing the government ministries and the various government offices under each ministry. The Office also regulates the accounting and audit practice in the Country, including licensing of auditing and accounting firms
- The topics on which short-term trainings were taken include: “Internal Auditing,” “Budgeting and Control,” “Fund Accounting,” “Introduction of the revised audit manual for the Ethiopian public sector organizations,” “Supervisory management” “Human resource recruitment and selection,” “strategic planning and management for higher education,” “Results oriented performance management,” and “ Internal Audit standards and Code of ethics.”
- Financial audit determines whether financial operations are properly conducted, and whether financial information is valid and reliable.
- Compliance audit determines whether the auditee has complied with applicable laws and regulations.
- Value-for-money/performance auditee determines whether the unit is managing or utilizing its resources in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in the management information systems, administrative procedures, or organizational structure.
- The budget year for the Ethiopian public sector organizations runs July 1 through June 30.

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