



**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

ASSESSMENT OF INTERNAL AUDIT PRACTICE IN THE CASE OF ETHIOPIAN  
CONSTRUCTION DESIGN AND SUPERVISION WORKS CORPORATION

BY

NEGASH BISLAT

ENROLMENT NO: SGS/0081/2009B

JANUARY, 2019

ADDIS ABABA, ETHIOPIA

ASSESSMENT OF INTERNAL AUDIT PRACTICE IN THE CASE OF  
ETHIOPIAN CONSTRUCTION DESIGN AND SUPERVISION WORKS  
CORPORATION

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFLLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN  
ACCOUNTING AND FINANCE

BY NEGASH BISRAT  
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## **DECLARATION**

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of Ato Dejen Mamo (Asst. professor). All sources of materials used for the thesis have been duly acknowledged.

I confirm that thesis on the Ethiopian Construction Design and Supervision Works Corporation on the same topic earlier has not been submitted to any other higher learning institution for the purpose of earning any degree.

**Name** \_\_\_\_\_

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### **Advisor's Approval**

**This Research project paper has been submitted for examination with my approval as a university advisor.**

**Advisor**

**Signature**

**JANUARY, 2019**

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First of all, I would like to express my deepest gratitude to my advisor Ato Dejene Mamo for his valuable guidance and understanding me during the course of the study. Thanks for the respondents without them it would be impossible to complete this project.

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## **ACRONYMS AND ABBREVIATIONS**

BDE	Building Design Enterprise
CAE	Chief Audit Executive
CDSCO	Construction Design Share company
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIMA	Certified Institute of Management Accountant
COO	Chief Operation Office
ECDSWC	Ethiopian Construction Design and Supervision Works Corporation
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
IPPF	International Professional Practice Frame Work
MOFED	Ministry of Finance and Economic Development
NED	None Executive Directors
OECD	Organization for Economic Corporation and Development
TCDE	Transport Construction Enterprise
TCDSO	Transport construction Share Company
WWDSE	Water Works Design and Supervise Enterprise

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## **ABSTRACT**

*This study is based on the assumption that the effective practices of internal audit can enhance the performance of any organization. The purpose of this study is to examine the practices of internal audit of Ethiopian construction design and supervision Work Corporation. The internal audit staff and auditee within the corporation were the source of the required data to the researcher. The study employed descriptive research design and mixed research method. The appropriate data was collected through questionnaires distributed. The collected data was analyzed through SPSS and the findings were described statistically and also presented using tables. Mean values and standard deviation were employed to analyze the data. The study revealed that there is an independence of internal audit department in its activities from the influence of Ethiopian Construction Design and Supervision works corporation management. The study also found out that the internal audit functions add value to the overall objective of the corporation. The study also investigated that board audit committee support the independence of internal audit of the corporation. Finally it was found out that the management of the corporation takes action on the audit findings of the internal audit. Thus, the researcher concludes that the overall practices of the internal audit of Ethiopian Construction Design and Supervision works corporation is to the standard. Based on the findings to farther enhance the activities of the internal audit, it is recommended that the internal audit functions should more strengthen the compliance with IIA standards' and audit quality review procedure in the corporate internal audit of the corporation.*

**Key Words: Internal audit, Internal audit practices, determinants of internal audit practice**

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## **CHAPTER ONE**

### **1. INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

No nation can function in an orderly manner without an effective government Jacobus, Rensburg, and Coetzee (2015). The citizens of a country cannot fulfill all their needs in an individual capacity and are dependent on their government for many basic infrastructural needs. There are many critical success factors that should be in place for government to be effective, two of them are sound public administration polices and governance structure Jacobus et al (2015). In its role as independent evaluator in terms of the assurance and consulting services that it provides, internal auditing should be an integral part of any organization's governance structure (IIA, 2012). Stating the mentioned importance internal audit can be defined differently by different scholars and institutions. According to (CIMA), "Internal audit is an independent appraisal activity established within an organization as a service to it. It is a control which functions by examining and evaluating the adequacy and effectiveness of other controls" Kaplan (2007). Similarly internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process. This definition highlights several important concepts. First, the definition notes that internal auditors should be objective, while the IIA professional standards also recognize the importance of competence. Second, the IAF provides both assurance and consulting activities.

Finally, in providing these activities, the IAF is expected to focus three specific, but related, work areas: risk management, control, and governance processes. It is not clear the extent to which each of the IAF factors

(characteristics, activities, and work areas) is associated with the IAF impacting its organization. Audrey (2013).

The basic structure of internal audit is a chief internal auditor, responsible to the audit committees with an internal audit team reporting to the chief internal auditor. In large organizations the internal audit function will be a separate department. In small company it might be the responsibility of individual to perform specific tasks even though there will not be a full time position. Even some companies outsource the internal audit functions. Ahmillichap (1996).

To maintain its independence the head of internal audit should report to level within the organization that allows the internal audit to fulfill its responsibilities. Auditors who should have performed the internal audit function should be objective in carrying out their work. They should have an impartial attitude, and should avoid any conflict of interest. The auditors should also exercise due professional care and possess the competence to perform the task. The quality and reliability of internal audit operation depend on transparency, constructive recommendations, and the objectivity, independence, and organizational status of the CAE signing the report. To be relevant opinions and intended controls, should be constructive, reliable, concise in recommending improvement. Zablhollah (2010). Furthermore, internal audit contributes to effective governance in assisting the identification of risk factors, the analysis of consequences, prioritizing of risk management and control system, add assurance that the risk management process are functioning as required, and through consulting services assist management and control process. Abrham (2007)

Organization attributes that appear to influence IA effectiveness and other factors grounded in country context could influence IA effectiveness in developing counties Mihret (2010). Therefore, internal auditing is an essential part of governance and can be valuable asset to public institution.

However, for public sector internal auditing to effectively support management, the internal audit function should be capable. Moreover, citizens are demanding more transparently and better services, while resources are growing at slower pace. This presents unique sets of risks for the public sector. Jacobus, et al, (2015).By providing audit opinions and recommendations, internal auditors can better assist in the design and implementation of our organization's governance measures, risk management process, and internal control system. CAEs can take a leadership role in educating and promoting their internal audit. Zabihorlah (2010). Based on the above facts it is crucial to assess the internal audit practice of Ethiopian construction design and supervision Works Corporation.

## **1.2 Establishment of the corporation**

The Ethiopian construction design and supervision Works Corporation is established on December 17, 2015 as a federal government public enterprise by council of minister regulation No.365/2015, is a multi-disciplined engineering firm and provides professional services in water and energy, transport, building and urban planning and related disciplines.

The ECDSWC is founded by amalgamation of three former public Enterprises viz. water works Design and supervision Enterprise (WWDSE), Construction Design share company (CDSCO) and Transport construction Design share company (TCDSKO) that were predominantly providing engineering consultancy services in water, building and transport sectors, respectively.

As the ECDSWC is established recently the histories of the three former public enterprises (CDSCo, TCDSCo, and WWDSE) are considered for the corporation and briefly described as follows. The three enterprises, CDSCo, TCDSCo, and WWDSE, were serving as department in their parent public

institution, vis. Ministry of public works, Imperial Highway Authority, Ministry of WATER Resources, respectively.

THE CDSCo was established as Construction Design Enterprise (CDE) by council of Ministers Reg. No. 91/1977 to provide construction consultancy activities independently; and later re-named as Building Design Enterprise (BDE) with council of Ministers Reg. No. 107/1979 but continued to provide consultancy services in building construction design, contract administration, foundation investigation and material testing. Furthermore, in 2002 the company was reorganized as Construction Design share Company (CDSCo) by expanding its services to road and water works design, supervision and contract administration works.

Transport Construction Design Share Company (TCDSCo) was a full-fledged public enterprise consulting firm that provides services in design and construction supervision of roads, bridges and airports; geotechnical investigation and laboratory testing services. TCDSCo was established as transport Construction Design Enterprise (TCDE) BY council of Ministers Reg. No 108/1987; and later as TCDSCo by council of Ministers Reg. No 161/1994. Both CDSCo and TCDSCo were being supervised by Board of Directors and Public Enterprises Privatization and supervising Agency until the establishment of the Corporation.

Water Works Design and Supervision Enterprise (WWDSE) was established by council of Ministers Regulation No. 42/1998 and council of Ministers Amendment Regulation No. 110/2004 to conduct studies, design and supervision of water infrastructure and river basin integrated development master plans; and to render services in surveying, geotechnical and laboratory testing of materials, water quality and agricultural soil as well as preparation of bid and contract documents.



All the three (3) public enterprises were established to provide engineering consultancy services in the construction sector; and afterwards during different times they reorganized, renamed; expanded duties and responsibilities or amended authorized capital (ECDSW, 2016).

The corporate internal audit is also part of the internal control system of the corporation established to ensure the proper implementation of internal control maintained to exercise control over the above mentioned activities of the corporation.

### **1.3 Statement of the problem**

Internal audit is an important part of company's internal control system through which the company's management ensure the adequacy and proper implementation of other established controls. Poor performance of internal audit may result in failure of detecting or preventing weaknesses in other parts of the internal control system that could lead to the failure of the company Kaplan (2007). Effective and efficient performance of the internal audit can significantly contribute to the overall company profitability by preventing the misappropriation of company resources where by minimizing cost to the organization. The main mission of internal auditing is to assist management in achieving its objective and to add value by independently evaluating the adequacy and effectiveness of governance, risk management and control process (IIA, 2011). The capability of internal audit function (IAF) should be in line with the mandate of the organizations they serve. Internal auditors in the private sectors should be fully able to assist their organizations in fulfilling their main mandate, namely profit making and increasing shareholder value. Likewise, internal auditors in the public sector should be able to assist their organizations in achieving their objective, namely to provide services to the public by assisting their organizations in mitigating the risk that are unique to the public sector; ultimately resulting in improvement of the performance of the public sector

and increased citizens confidence. Jacobus et al, (2015). Hence, strong and effective internal audit function plays a crucial role in the attainment of the company objective. In the same way there are different problems that challenge internal auditing practices. Among these lack of commitment by public officials, inadequate response of citizens, inadequate co-ordination of the audit system, fraud and corruption, unethical leadership and ineffective and insufficient utilization of resources are the major one. Vem. R, (2016). A research conducted by Utami Helianti (2016) indicated institutional pressure on the practice of an internal audit. The study considers three types of pressures developed by DiMaggio and Powell (1983, 1991) that comprises coercive, normative and mimetic pressures. Items of coercive are from government mandate, regulations and the standard operating pressures. The normative pressures arising from professional bodies such as the IIA/Indonesian internal auditor association that encompass education and training system, due professional care and continuing professional development. Intern, mimetic pressure stem from technology based internal control system, and recommendations from a public accounting firm as well as external consultants. But, this study did not see the value added as a result of auditing. In addition, it is the doubt of the researcher whether the auditing practice of the corporation perform /carry out its duties and responsibilities in line with the current level of professional competence or development. Thus, from this point of view, it becomes very crucial to assess the practices of internal auditing. To assess these problems the following basic questions were set.

1. Does the corporate internal audit structurally independent of the influence of the corporation management in performing audit activities?
2. Do the internal audit functions add value to the overall objective of the corporation?

3. Does the board audit committee assist the internal audit in maintaining its independence?
4. Does the management takes actions against the findings and recommendations of the internal audit?

## **1.4 Objective of the study**

### **1.4.1 General Objective**

The general objective of the study is to assess the internal audit practices at Ethiopian construction design and supervision Works Corporation.

### **1.4.2 Specific Objective**

The specific objectives of the study are listed here under.

- ✓ To examine the corporate internal audit is structurally independent of the influence of the corporation management in performing audit activities.
- ✓ To examine audit functions add value to the overall objective of the corporation.
- ✓ To examine audit committee assists the internal audit in maintaining its independence.
- ✓ To assess the management action against the findings and recommendation of internal audit.

## **1.5 Scope and Delimitation of the study.**

In carrying out research, to make it manageable and focused it is important to delimit its scope. Accordingly this research is delimited to construction design and supervision Works Corporation in its scope. Content wise it is delimited to practices of internal auditing of the Ethiopian construction design and supervision works corporation. Also the non-response to the questionnaire and not using the secondary data to the research are the limitation of this study.

## **1.6 Significance of the study**

The finding of this study will have the following significance. It provides information about performance practice of the Ethiopian Construction Design and Supervision Works Corporation internal audit to Management board, audit committee, Management and other stakeholders.

It will show the strengths and weakness of the current audit practice. And will also be a reference material for anyone who wants to carry out a research in the related topic.

## **1.7 Organization of the study**

The assessment is organized into five chapters. The first chapter explains back ground of the study, statement of the problem, objective of the study significance of the study, delimitation of the study and scope of the study. The second chapter deals with review of related literature. The third chapter is about research design and methodology. The fourth chapter is the analysis, discussions and presentation part of the research findings, and the last chapter, chapter five presents the summary and conclusions, and recommendations.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITERATURE**

#### **2.1 Internal Audit-Historical perspective**

The demand for audit service is the direct consequence of the participation of outside stakeholders (third parties) in the company. This theory of inspired confidence further indicated stakeholder's demand of accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, because of a possible divergence between the interests of management and outside stakeholders, an audit of this information is required.

The concept /an idea of control and audit had also rooted some five thousand years ago; where people in Mesopotamia communicating basic information on crops and taxes in pictograms. Similarly various recording systems, detailing financial transactions, inventory, sales volume, etc. have been found in many other cultures such as the Egyptian, Greek, Chinese, Persian and Hebrew civilization. From this it is understood that as assets and transactions exists, there is a need to keep track of these assets and transactions. There were also in ancient Rome practice of one official that compare records with another and the segregation of duties and Verification. The term "audit" possibly hails from the Latin "Audere", to listen. Norton (1913); Zelalem (2014).

Furthermore progress had been shown in 1340, when the English parliament appointed commissioners to audit the accounts of the collectors of subsidies (Ibid). Early twentieth century brought many large organizations in to existence that necessitates the need for accounts and control. Following, the above conditions the institute of internal auditors was established in 1941 that mainly supports the development of internal audit profession to reach the current stage. Hence Internal auditing is defined by Institute of internal Auditors (IIA, 2000), as " Internal auditing is

an objective assurance and consulting activity that is independently managed within an organization and guided by a philosophy of adding value to improve the operation of the organization. It assists an organization in accomplishing its objective by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management and governance process" Jeocheristopher (2012).

According to this definition the role of internal audit was extended to provide assurance to the board and management about the adequacy of risk management, controls, and governance processes. The internal audit function is an important governance component because they are an independent group of people, who are all parts of the organization, but operate independently in assessing the effectiveness of the operations. It is a critical role in assisting the board and management in undertaking their responsibilities .Jeocheristopher et al (2012).

It is also defined differently as an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources Ahmillichap, (1996).

### ***2.1.1 Essential elements of the internal audit***

The internal audit of any organization should have the following essential elements to perform its function to the requited standard. Ahmillichap, (1996)

- Independence: The internal audit should report to the higher level of authority within the organization. The chief internal auditor should report to the board audit committee.

- Staffing: The internal audit unit should be adequately staffed in terms of numbers, grads and experience.
- Training: all internal auditors should be fully trained.
- Relationship: Internal auditors should foster constructive working relationship and mutual understanding with management, with external auditors, with any review agencies (Management Consultants) and with audit committees.
- Due care: an internal auditor should behave much as an external auditor, in terms of skill, care and Judgment. He/she should update technically and have personal standards of knowledge, honesty, probity and integrity.
- Planning the internal audit should properly plan the audit activities to be carried out, staff required and the time schedule.
- System control: the internal audit must verify the operation of the system in much the same way as an external auditor.
- Evidence: the internal auditor will evaluate audit evidence in terms of sufficiency, relevance and reliability.
- Reporting: the internal auditor must prepare timely, accurate, and comprehensive report to management on regular basis.

### **2.1.2 The internal Audit Functions**

The internal audit performs mainly reviewing accounting and internal control systems to assist the management of the organization to meet the set objective. This is the traditional view of internal audit. The internal auditor checks the financial controls in the company, possibly assisting or sharing work with the external auditor. The internal auditor would comment on whether appropriate controls exist as well as whether they are working correctly. In this task, the internal auditor does not manage risk, but simply report on controls. Zabihollah, (2010). Internal auditors traditionally have used a risk based approach in auditing controls over their company's operational effectiveness, reliability of financial reports, and compliance with applicable rules and regulation Sarbanes Oxley sections 302 and 404 and the U.S. public company accounting oversight Board's Auditing standards No. 5 encourage internal auditors to focus on compliance driven controls when assisting management in preparing reports on internal control over financial reporting. Zabihollah (2010).

The quality and reliability of internal audit opinion depends on transparency, constructive recommendations, the objectivity, and independence and organizations status of the CAE signing the report. To be relevant, opinions and recommendation should be related to the identified risk and internal controls, and should be constructive, reliable, and concise in recommending improvements. Furthermore, Zabihollah,(2010) mentioned the identification of significant risks and its management as the important function of internal auditing. In this function, the internal auditor does start to work on risk. The auditor may be asked to investigate areas of risk management, with specific references on how the company identifies, assesses and controls significant risks from both internal and external sources.



Organizations of all type, size and complexity are facing variety of risks that affect the reliability of financial statement and effectiveness of internal control. Effective assessment and appropriate reporting on the organization's risk Management requires internal auditors to understand the risk assessment process from start to finish. Auditors should ensure that the established risk assessment process is improving strategic decision making and supporting the achievement of organizational objectives. Also they should provide adequate risk assessment information to the board and senior management to enable them to make risk informed, strategic decision. More, over auditors should provide assurance and consulting services to the board, audit committee, and management on the organization's risk and risk appetite as well as the effectiveness of the process designed to manage the risk and minimize their impact on financial reporting. Zabihollah, (2010). Recently, the internal audit function extends reviewing the economy, efficiency and effectiveness of operations: This is a value for Money (VFM) audit that the auditor checks whether a particular activity is cost effective (economical), uses the minimum inputs for a given out put (efficient) and meets its stated objectives (effective). Similar to the external auditor internal auditors also examine financial and reporting information. To accomplish this function internal auditors ensure that reporting of financial is made on a timely basis and that the information in the report is factually accurate. To ensure compliance to government obligations internal auditors review compliance with laws and other external regulations. This objective is particularly where the internal auditor will be caring out detailed work to ensure that internal control systems and financial reports meet external lows and regulations. Example, Government tax laws.

Other issues that requires due consideration as special investigation are also functions of internal auditing. That is investigation into other areas of the economy's business, e.g., checking the cost estimates for new factory.

### **2.1.3 Corporate Governance**

Various scholars and practitioners define “corporate governance” differently. Among these, corporate governance is the system by which business are designed and controlled. This narrower definition focuses almost exclusively on the internal structure and operation of the corporation’s decision making process, and is central to public policy discussion about corporate governance in most countries. Hussein (2012).

According to committee on financial aspects of corporate governance, 1992, “with in aboard context governance is associated with control” Joe Christopher (2012).

The current development of internal audit function is extended to ascertain the extent of control to be developed and implemented by the management across their corporations to ensure effective governance is achieved and give assurance or express opinion on governance controls.

### **2.1.4 Internal Audit’s Role**

Internal audit provides assurance by assessing and reporting on the effectiveness of governance, risk management, and control processes designed to help the organization achieve strategic, operational, financial, and compliance objectives (IIA, 2018)

It is best positioned to provide assurance when its resource level, competence and structure are aligned with organizational strategies and when it follows IIA standards. It can do this best when it is free from undue influence. By maintaining its independence, internal audit can perform its assessments objectively, providing management and the board an informed and unbiased critique of governance processes, risk management, and internal control. Based on its findings, internal audit recommends changes to improve processes and follows up on their implementation.

Functioning independently within the organization, internal auditing is performed by professionals who have a deep appreciation of the importance of strong governance, an in-depth understanding of business systems and processes, and a fundamental drive to help their organizations succeed (IIA, 2018).

The IIA believes internal audit insights on governance, risk and control provoke positive change and innovation within the organization. It inspires organizational confidence and enables competent and informed decision making. What's more successful internal auditing can mature to provide foresight to the organization by identifying trends and bringing attention to emerging challenges before they become crises (IIA, 2018).

Internal audit can add value by providing advisory and consulting services, intended to improve governance, risk management, and control processes, so long as internal audit assumes no management responsibility. This is vital to maintaining internal audit's objectivity and avoiding conflicts of interest. Selection of the type of audits or services to be performed should be based on the audit activity's authority, maturity and purpose, as well as the organization's needs and issues (IIA, 2018).

### ***2.1.5 Managing the performance of the internal Audit Work***

The internal audit activities should be carried out with a systematic and disciplined approach as stated in the definition of internal auditing (IIA, 2013). A systematic procedure of auditing consists of a number of steps, namely audit planning, testing and evaluating information from fieldwork, reporting findings and following up the audit recommendations (IIA, 2013). These stages are general guidelines provided by the standards for the internal auditors to carry out the auditing activities.

The Standards require the CAE of the internal audit unit to manage the internal audit department effectively (IIA, 2013). Likewise, to effectively

manage the internal audit activities the department must have approved internal audit charter that clearly indicate the authority and responsibility of the auditors, detailed staff recruitment procedure of internal audit, career of the internal auditors. And also the charter should indicate relationship between the internal auditor and the audit committee, and established Quality Assurance Review procedure.

## **2.2 Empirical Reviews on Internal audit practice**

The main aim of this research is to assess the practice of internal audit in views of different authors and researcher's idea and recommendations regarding the related topic of internal audit. Accordingly, the reviews are presented as follows.

Internal audit practice in the construction industry in particular is encountered difficulty as result of different inconveniences that hamper the development of internal audit in Ethiopia. To make convenient the presenting of the literature of those studies regarding the main factor that influence the practice of internal audit; the structural independence of the internal audit from management influence, the value adding of internal audit to the objectives of the corporation, the assistance of audit committee in maintaining internal audit independence and the management action against the audit findings by different researchers are included in this literature.

### ***2.2.1 Structural independence of the internal audit Functions from management.***

Independence refers to the concept of being free from any management influence while internal auditors carry out audit activities and issue audit report (MoFED, 2004).

Independence is similarly the freedom from conditions that threat the ability of the internal audit activity or the chief audit executive to carry out internal

audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship.

Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels. Spencer (2010).

The virtues of independence and objectivity form the cornerstones of the internal audit profession. Independence is both a state of mind and a question of perception based on the absence of interest that may influence judgment or opinion. Normand, (2010). If auditors' opinions can be influenced due to economic dependence or persons having authority over them, even if they are objective, they will not be independent. If vested interest could interfere with the auditors' opinions, a third party would probably consider that they are not independent and therefore not credible Normand (2010).

Internal auditing is a component of the control environment that facilitates the governance of the organization. Although some people believe that the internal audit function is an integral part of the internal control system, internal auditing should be viewed as distinct and independent from internal control so that it may offer assurance of adequate control and, if required, issue recommendations that improves controls. Often, internal auditors must perform their duties under pressure that if not well managed can easily impair their independence. These pressures may result from a misunderstanding of their role, the fact that they may be called on to provide services to two different levels of delegations of power at the same time, or, in some cases, regulations that require organization to make public internal audit reports.

To minimize these potential pressures, the board and executives need to clearly state in an oversight policy the internal audit function's terms of reference. By doing so, they reduce the risk of impairment to the auditors' independence and effectiveness. Without clear terms of reference, the auditors' task becomes more difficult and susceptible to possible influence from different actors within the organization. Of course, an active and effective audit committee can reinforce internal auditing independence (Normand, 2010).

### ***2.2.2 Audit committee supports in maintaining internal audit independence***

The audit committee (AC) is a standing committee of the main board and tends to consist of a minimum of three NEDs. Most audit committees meet quarterly and they are now found in all business and government sectors for larger organizations. The format is normally that the NEDs sit on the audit committee and the CFO, external audit; CEO and CAE attend whenever required. The committee will have delegated authority to act in accordance with its set terms of reference and also investigate areas that again fit with their agenda. The CAE will present reports to most regular committee meetings and will prepare an annual report to cover each financial year in question. In short, the audit committee is increasingly seen as one of the cornerstones of corporate governance. Many argue that the success of an organization's corporate governance arrangements relies in part on the success of the established audit committee. Normand (2010).

Because politics is inherent in any organization, the ideal of achieving complete independence and objectivity is a constant challenge. Internal auditors, however, cannot permit themselves to have a political agenda if they hope to protect their credibility and fulfill their role adequately. It is important that auditors keep in mind that responsibility and accountability are opposite faces of the same coin. Each level of delegation has its own

specific responsibilities and accountability. The audit committee is acting as an equilibrium agent among the board, executive, and internal auditor that the audit committee can be tremendously useful. This committee, composed of independent directors, offers an interface for regulating the oversight needs of directors and, if desired, of executive management. Moreover, the audit committee can promote and safeguard the independence and objectivity of internal auditors. Normand (2010).Therefore, accountability of internal auditor is obtained through their performance report to the audit committee. If internal auditors are to facilitate accountability throughout the organization, the audit committee acts to ensure the right balance as it reviews performance issues of the organization's different departments; it also protects the credibility and effectiveness of the internal audit function. This balance is a matter of making sure that responsibilities are adequately addressed and that accountability rests in the appropriate hands in accordance with delegated powers.

### ***2.2.3 Internal audit add Value to the corporation objective***

Jacobus et al (2015) in their academic paper internal audit public sector capability conducted a research and reached at conclusion that in light of challenges, internal auditing can add value by assisting management to minimize risks associated with each challenge. For example, with regard to the economic challenge relating to fraud, corruption and unethical leadership, IAFs can add value by ensuring that this risk is sufficiently evaluated in terms of the likelihood of occurring and provide assurance on the prevention process. Furthermore stated that Public sector IAF can therefore make a valuable contribution in assisting the public sector in addressing their challenges. However, internal auditing can only make this contribution if the auditors are suitably qualified, competent and capable to do so.

In addition, J. Christopher (2012) in his study of the adoption of internal audit as a governance control mechanism in Australian public universities indicated that internal audit functions adopted in Australian public universities are adequately structured, resourced, and functionally positioned in practice to deliver a range of value added services to enhance monitoring controls across their governance.

Karin Barac, (2009) in his article indicated that the IIA states an IAF is designed to render value adding services to an organization. The concept of value added is discussed using the international professional practice framework (IPPF) as its point of departure.

In addition the IPPF states that an IAF will add value when it provides important opportunities to achieve organizational objectives, when it identifies operational improvements and contributes to reducing risk exposure through both assurance and consulting services. Overall, the findings of the study showed that both groups of user respondents (CAC and CEO/CFO/COO) were satisfied that their companies' IAFs demonstrated qualities of competence, commitment, effective service performance and flexibility. They also expressed their value satisfaction with the value added by these IAFs and perceived them as meeting their expectations.

#### ***2.2.4 Management implementation of internal audit findings and recommendations***

N. Wadesango et al, 2017 in his article studied the challenges faced by management in implementing audit recommendations and the risks involved in the non-implementation of the audit recommendations in Parastatals. The study adopted a desk top approach. This included documentation of a comprehensive review of published and unpublished work from secondary sources of data of specific interest to the research. The researchers examined and discussed what different authorities say on the



methodologies adopted in determining whether management and staff appreciates the significance and roles of the audit function in parastatals as well as determining the responsibility of management towards risk management process and the implementation of audit recommendations. If implementation is not progressed promptly, and individual risks remain untreated, the full value of the audit would not be achieved. It was found that Audit recommendations are not implemented as a result of financial constraints, staffing issues, complex issues, non-feasible recommendations made by auditors as well as management's ignorance as to how their organizations can be affected as result of non-implementation of audit recommendations. The literatures provide enlightenment to the possible risks that can be incurred by an entity as a result of non-implementations of audit recommendations as well as the audit committee responsibilities.

### **2.3 Gaps in the literature and conclusion**

Many literature and studies widely indicates how internal audit setting influence internal audit practice. As per the researcher's understanding the limited literature currently focused on private and Government economy in developed countries. As a result, understanding of the world wide arrangement of internal audit practice found in complete. In addition there is lack of consistency on the findings of the studies on the practice of the internal audit in achieving organizational over all objectives.

### **2.4 Conceptual Frame Work**

After going through literatures, the researcher has tried to extract the conceptual frame work of this study and their implication from the empirical literature mentioned above it can be understood that internal audit practice is influenced by internal audit independence from corporation management, value added activities of the internal audit, audit committee assistance of internal audit in mantling independence and the management takes actions against the findings and recommendation of the internal audit. Hence, this

study also aims to establish the relationship between internal audit practice and the independent variables that influence the internal audit performance of the Ethiopian Construction Design and Supervision Work corporation. The conceptual frame work showing the dependence between variables is presented below.

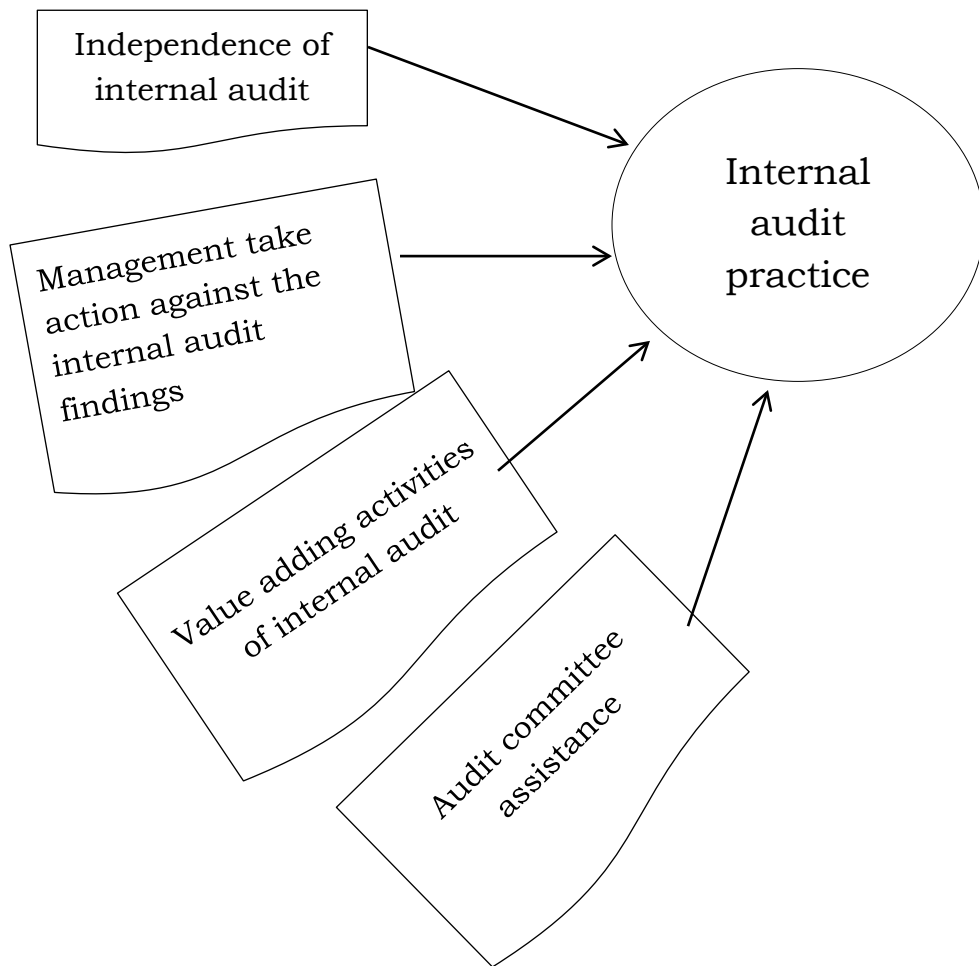


Figure 1: Conceptual frame work of Factors influencing internal audit practice.

Source: Owen constructed from the literature

## **CHAPTER THREE**

### **3. RESEARCH DESIGN AND METHODOLOGY**

This chapter illustrates the research design and methodology which assists in drawing the logical and coherent link between the data collected, analyzed, summarized, and conclusions and recommendations drawn in the subsequent chapters.

#### **3.1 Research Design and approach.**

In this study, a descriptive design was employed to describe the practices of internal auditing of Ethiopian construction design and supervision Works Corporation. This design was selected because it is appropriate when the aim of the study is to get an exact description of current status Seyoum and Ayalew (1989). In addition, they stated that this design is a fact finding with adequate and accurate interpretation of the findings. It describes with the emphases on what actually exists such as current conditions, practices, situations or any phenomena related to internal auditing.

A mixed research method was used to assess the practice of internal auditing concurrently because each method is not complete by itself and support each other. These questionnaires were distributed to samples selected from the target population.

#### **3.2 Population and Sampling Techniques**

##### ***3.2.1 Population of the Study***

In order to answer the basic research questions, fulfill the objectives of the study and make the data collecting process more comprehensive, both quantitative and qualitative data were gathered from the target groups. The target populations identified for this research are the internal audit staff, all top level managers, process and sub processes managers and team leaders within the corporation's structure.

**Table 1: List and Number of Populations**

Work Force Description	Number of Populations (N)		
	Male	Female	Total
Deputy chief executive	5	1	6
Process executive	24	2	26
Sub-Process managers	28	9	37
Corporate office managers	6	-	6
Team leaders	25	5	30
Internal audit staff	6	-	6
<b>Total</b>	<b>94</b>	<b>17</b>	<b>111</b>

*Source: Attendance Sheet (Internal Database)*

### **3.2.2 Sample size Determination**

From the total population approximated 111, the total sample size determined using Taro Yamane's (1967) Statistical formula with 95% confidence level and 5% error. Therefore the total sample size was 87 by involving all female, audit staff, Deputy chief executive and corporate office managers as their number in the population is few to exercise sampling tecqeunics, and considering 70% of the process executives, sub-process executive and team leaders.

$$n = \frac{N}{1 + N(E)^2}$$

$$n = \frac{111}{1 + 111(0.05)^2}$$

Where;

n= sample size

N= Total population

E= sampling Error which equals to 0.05 or 5%

**Table 2: Identified Sample Size**

<b>Position</b>	<b>Male</b>	<b>Female sample</b>	<b>Total</b>
Deputy chief executive	5	1	6
Process Executive	17	2	19
Sub-process executive	19	9	28
Corporate office manager	6	-	6
Team leaders	17	5	22
Internal audit staff	6	-	6
<b>Total</b>	<b>70</b>	<b>17</b>	<b>87</b>

*Source: Attendance Sheet (Internal Database)*

For these eligible samples identified from the total populations, questionnaires were distributed and interviews were made randomly to get an appropriate response. The respondents are believed appropriate and have knowhow about audit team/process and auditing practice in the corporation. The study used simple random sampling technique from each stratum with the notion of giving each and every respondent in the target population an equal chance of selection to be included in the sample.

### **3.3 Types of Data and Tools of Data Collection**

The research data (primary data) was gathered from the respondents through questionnaires and interview so that the data combination resulted in relatively consistent and cross-checked results.

### **3.4 Procedures of Data Collection**

The questionnaires was prepared in the form of Likert-Scale type (showing respondents agreement or disagreement) by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires distributed to the respondents were organized in to two parts; the first part comprised

the demographic questions regarding the respondents, and the second part contained items relating to the practice of IA and its determinants.

**Step 1:** Questionnaires that are considered appropriate and address all variables was prepared.

**Step 2:** The questionnaires were reviewed by the Advisor for his valuable comments.

**Step 3:** Reliability test was conducted using crombach alpha on some selected respondents questionnaires.

**Step 4:** A chain of friends and Messengers were used to distribute and collect back the Questionnaires. The questionnaires were distributed to 87 respondents and the returned questionnaires were 75 which is 86% of the respondents returned the questionnaire.

### **3.5 Validity and Reliability**

#### ***3.5.1 Validity and the reliability of the Questionnaires***

The quality of the instruments used in a research is very important for the conclusions the researchers draw, because conclusions are based on the information obtained using these instruments. From this point of view, it becomes very important to establish validity and reliability of the items in the questionnaires of this study for meaningful data collection of the study. After questionnaire were developed based on the literature review, their validity and reliability were established using an experts.

#### ***3.5.2 Validity***

Validity refers to the extent to which an instrument measures what it is supposed to measure and performs what it is designed to perform. To establish validity, the prepared questionnaire was provided to the experts who have idea about research. After the comment of the experts incorporated in the questionnaire it was given to the advisor. The comments of the advisor were included to the questionnaire.

### **3.5.3 Reliability**

A questionnaire must not only be valid, but it has to be also reliable. Reliability is the ability of the questionnaire to produce the same result when it is administered under the same conditions. It indicates the accuracy or precision of the measure the questionnaire makes Radhakrishana (2007). It is the extent to which measuring the same property repeatedly produces the same results. It refers to the ability of the questionnaire to collect data that produces constant results. Ideally, each survey item will mean the same thing to everyone, including those administering the survey. This requires careful design and refinement of the questionnaires. Dykema,(2010).

Cronbach's alpha is the most commonly used tool to measure questionnaire reliability. Especially, it is the most commonly used when multiple Likert scale questions are used in the questionnaire. A value of 0.70 is seen as an acceptable value for Cronbach's alpha and values lower than 0.70 indicate unreliable scale. Pallant (2007). Accordingly, all the questioners tested through pilot test have greater than 0.70 Cronbach's alpha value and hence accepted as reliable.

### **3.6 Methods of Data Analysis**

After collecting and classification of the relevant data, the response was sorted, coded, computed, and analyzed using Statistical Package for Social Sciences (SPSS) software-version 20.0. The appropriate statistical analysis such as frequencies and descriptive analysis was used according to respective objectives and descriptions. The analyzed data are presented using tables.

Analyzed, data was processed on the basis of Likert's scale (Likert, 1932) by reducing it to the ordinal. The rating so recorded was assigned rating values ranging from 1 to 5 respectively as shown in Table 3:

**Table 3: The Response Values**

<b>Response scale</b>	<b>Scale rating</b>
Strongly disagree	1
disagree	2
Neutral	3
Agree	4
Strongly Agree	5

### **3.7 Variables used in the Research**

#### **3.7.1 Dependent Variable**

The dependent variable in this research was the internal audit practice. The researcher used the summative score technique for the questions in each factor for each participant. This is because Likert scale is the common summative scores Balnaves and Caputi, ( 2001).

#### **3.7.1 Independent Variables**

The independent variables selected for this research were: the structurally independence of corporate internal audit from undue influence of the management, value addition of the internal audit to the objectives of the corporation, audit committee assistance in maintaining internal audit independence and management action against the findings and recommendation of the internal audit. Similarly with the dependent variable items, all the independent variables items was measured one five point Likert-scale.



## CHAPTER FOUR

### 4. DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

This section presents the demographic characteristics of respondents including sex, work experience, position in the corporation and educational background.

**Table: 4. Bio- data Sample population**

No	Items	Respondents	
		N= 75	
		N	%
1	Sex		
	Male	60	80
	Female	15	20
2	Experience		
	less than 1year	1	1.3
	1-3	6	8
	3- 5	5	6.7
	5- 10	30	40
	11 and above	33	44
3	<b>Educational back ground</b>		
	PhD	6	8
	MA/MSc	42	60
	BA/BSC	27	32
4	<b>position in the corporation</b>		
	Managerial	43	57.3
	Senior level	30	40
	Operational	2	2.7

#### **4.1 Sex**

As can be seen from Table 4, more than 80% of the respondents in this study are males, whereas the remaining 20% are females. This indicates that the number of females in this study is relatively lower than that of their male counterparts.

#### **4.2 Experience of Respondents**

Experience is highly important for effective auditing because staff share experience from each other for successful auditing. Experience gained overtime, enhances the knowledge, skills, and attitude of staff. It is through the real world application of auditing those auditors and other concerned staffs reach their full potential. The experience of staff for this study is shown in Table 4 above.

As can be seen (Table 4) only 16% of the respondents have experiences less than one year to 1.3 years. The remaining 40% have 5- 10 years where as the remaining 44% have experiences above 11 years. This indicates that the respondents of the study areas have better experience.

#### **4.3 Respondents Qualification Level**

There are different factors that influence the practice of internal audit. From these different factors, qualification is the most salient one. Professionalization of auditors' and other staff is considered as a serious issue that affects the practice of auditing in any organization. Therefore, it is important to have an idea about the qualification of auditors and others in this study because the level of qualification is important for the success of any auditing practices. Hence, the level of qualification of the respondents who participated in this study is shown in Table 4 above.

As indicated in the table, more than half of the respondents are MA/MSc holders. About 8% are PhD holders whereas the remaining 27% are BA/

BSc holders. This indicates that as the corporate has qualified workers and this indicates as the service given is clearly understood.

#### 4.4. Position in the corporation

As to position of respondents in the corporation 57.3% are at managerial level, 40% at senior level and the remaining 2.7% at operational level.

#### 4.5 Internal audit Independence

Items related to internal audit independence are designed to gather relevant information from workers of Ethiopian construction design and Supervision works corporation which enables to understand the extent to which internal auditing is independent from the influence of the management (See Table: 5 below).

**Table. 5 Internal Audit Independence**

	<b>Items</b>	<b>Mean</b>	<b>Std. Deviation</b>
1.	the internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings	4.45	.77622
2	The board audit committee approves the nomination and dismissal of the internal audit head	4.60	.71660
3	Internal auditors freely incorporate any audit finding in their audit report	4.40	.65760
4.	The internal audit checks and report the corrective action taken relating to previous audit finding	4.49	.68524
5.	The environment in which the internal audit operates is conducive to promote independence in your corporation	4.32	.61863
6.	Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services	4.56	.68260

	<b>Items</b>	<b>Mean</b>	<b>Std. Deviation</b>
7.	The head of internal audit is free to develop strong relationships with the board and /or audit committee	4.25	.63869
8.	The board audit committee recognize and support the best conditions under which internal audit thrive	4.26	.60030
9.	Management and board support efforts to make the internal audit activity responsive and innovative	4.25	.65951
10	Internal audit functions comply with IIAs standards	3.36	.56089
11	The purpose and responsibility of internal audit is clearly defined in the audit charter	4.56	.72111
12	There is quality assurance program in internal auditing department	3.20	.78843
	Aggregate mean	4.22	

N.B. Strongly Agree=5; agree=4; Undecided=3; Disagree=2; Strongly Disagree=1

As indicated in Table-5 items related to the practices of internal audit independence were presented to the respondents. Respondents were asked to rate the extent of practices of the independence audit service that is going on in their corporation on five point Likert scale that run from strongly agree to strongly disagree.

Based on this, as can be seen from the table regarding the internal audit department responsibility to follow up and ensure the corrective actions taken on audit findings the respondents agreed with mean value of 4.45. This indicates that as the internal audit department is granted responsibility to follow up and reports on corrective actions taken by the management on audit finding. Whether the board audit committee approves the nomination and dismissal of the internal audit head the respondents

agreed with mean value of 4.6 implying that it is the responsibility of board audit committee to nominate and dismiss the audit head rather than corporation CEO as this can strengthen the independence of the internal audit. Regarding internal auditors freedom to incorporate any audit finding in their audit report, similarly the respondents rated their agreement with mean value of 4.4 on the scale running from 1 to 5. This implies that the auditors' are autonomous to incorporate any audit finding in their audit report without fear of management influence. In addition, regarding the right of internal audit to check and report the corrective action taken relating to previous audit finding the respondents revealed their agreement with mean value of 4.49. Meaning the internal auditors freely check and report about the corrective action taken by the management on previous audit findings. The other point presented to the respondents was the conduciveness of environment in which the internal audit operates to promote independence in the corporation. Respondents rated their agreement with mean value of 4.32 implying that there is conducive work environment which supports internal auditing to exercise independence. Another item presented to the respondents was whether Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services or not. The respondents agreed on this item with mean value of 4.56. This indicates that internal auditors are properly positioned and resourced to discharge their responsibility. Regarding the freedom of head of internal audit to develop strong relationships with the board and or audit committee, the respondents supported the idea with mean value of 4.25 indicating that the head of internal audit has freedom to communicate and make relationship with the board or audit committee to strengthen his / her independence to act as per the professional requirement. For items, the board audit committee recognizes and support the best conditions under which internal audit thrive, management and board support efforts to make the internal audit

activity responsive and innovative, and the purpose and responsibility of internal audit is clearly defined in the audit charter the respondents agreed with mean values of 4.26, 4.25 and 4.56 respectively. The implication is the board audit committee recognizes and support the best conditions under which internal audit succeed, support efforts to make the internal audit activity responsive and innovative and the purpose and responsibility of internal audit is clearly defined in the audit charter.

Regarding internal audit functions complying with IIAs standards, the respondents responded with mean value of 3.36 which is less than agreement revealing that there is a problem in fully complying of audit functions with IIAS. Similarly, concerning the existence of quality assurance program in internal auditing department the respondents rated their agreement with mean value of 3.26 which is again less than agree meaning there is hesitation by the respondents about the existence of quality assurance program in the corporate internal audit service. Finally the study revealed the independence of internal audit department of the Ethiopian Construction Design and Supervision with aggregate mean value of 4.22. An interview result related to internal audit independence from the influence of the corporation management also supports the independence of the internal audit function from the management of the corporation.

**Table 6: Value added as a Result of Internal Audit Function**

	<b>Items</b>	<b>Mean</b>	<b>Standard Deviation</b>
1	corporate auditors have deep knowledge of the corporation including its culture, key players, and competitive environment	4.04	.70596
2	Internal auditors have broad knowledge of those practices the profession, in general ,considers value added	4.21	.77622
3	corporate internal auditors have courage to innovate in a ways the users of the service do not expect and may not think they want	4.12	.65677
4	Internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them	4.26	.77692
5	The corporate internal audit works closely with business development and operations management to identify opportunities for business process improvements and cost saving	4.05	.69542
6	The right partner can help the corporate internal audit function perform risk assessment that bring a fresh and independent prospective	3.94	.83655
7	The corporate internal audit evaluates effectiveness of risk management process designed by the corporation	4.14	.76571
8	The corporate internal audit provides independent assessments of risk	4.46	.84363
9	The corporate internal audit evaluates internal controls, and effectiveness and efficiency of the operation of the corporation	4.54	.75861

<b>Items</b>		<b>Mean</b>	<b>Standard Deviation</b>
10	The internal audit assesses and evaluates the internal control system in place to achieve corporation's objectives	4.64	.58448
11	The internal audit reviews the physical security of the corporation's assets	4.41	.65951
12	The internal audit assists efficient and effective use of corporation's resources	4.37	.58756
13	The internal audit performs financial audit to ensure proper preparation of financial statements	4.64	.60716
14	Internal audit follow up implementation for improvement	4.40	.61753
	Aggregate mean		

#### **4.6 Value added as a Result of Internal Audit Function**

The main purpose of internal audit is to improve or add value in the assessment and evaluation of internal control system, risk management and corporate governance of the corporation. To this end, items related to value added as result of internal audit function are designed to gather relevant information from the respondents. This enables to understand the extent to which value is added as a result of internal audit function.

As indicated in Table- 6 above items related to value added as a result of internal audit function were presented to the respondents. Respondents were asked to rate deep knowledge of the corporation including its culture, key players, and competitive environment on five point Likert scale that run from strongly agree to strongly disagree. Based on this, as can be seen from the table regarding deep knowledge, the mean values of responses of the



respondents' is 4.04. This indicates that as auditors have deep knowledge of corporation including its culture, key players and competitive environment indicating that auditors can play important role in adding value in the corporation. The other point presented to the respondents' is internal auditors has broad knowledge of those practices that can add value. The mean value of respondents' response is 4.21 which are in the range of agreement. This implies that auditors have broad knowledge to add value in the activities of the corporation.

Respondents were asked to rate whether corporate internal auditors have courage to innovate in a ways the users of the service don't expect and may not think they want. Accordingly, the mean value obtained is 4.12 which is greater than agree indicating that internal auditors have courage to innovate in a ways the users of the service do not expect. In the same way, the mean response of respondents regarding, internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them was 4.26 which is again above agree. This implies that internal auditors are committed to creativity to adapt innovations to add value in the corporation.

Regarding the corporate internal audit working closely with business development and operations management to identify opportunities for business process improvements and cost saving the mean value responded by respondents was 4.05 which is nearly agreement, which means the internal auditors work closely with business development and operation management meaning they add value to the their corporation as a result of collaborative work.

As portrayed in Table 5, respondents responded the mean value of 3.94 about the partner can help the corporate internal audit function perform risk assessment that bring a fresh and independent prospective. Again this value is nearer to agreement revealing that the partner can help

the internal audit function. The mean value of respondents' response regarding the corporate internal audit evaluation of effectiveness of risk management process designed by the corporation was 4.14 which is again agreement denoting that the internal audit evaluation of effectiveness of risk management process designed by the corporation is effective. The corporate internal audit provides independent assessment of risk was another factor to add value to the corporate as a result of internal audit function. Regarding independent assessment of risk, the mean value of respondents' response is 4.46 which indicate that the corporate internal audit provides independent assessment of risk for the corporation.

The value of response of respondents regarding the corporate internal audit evaluation of internal controls, and effectiveness and efficiency of the operation of the corporation was 4.54. This indicates that internal audit evaluate internal controls and effectiveness and efficiency of the corporation indicating that value added as a result of internal audit function. The internal audit assesses and evaluates the internal control system in place to achieve corporation's objectives was presented respondents to rate. The mean value obtained for this item is 4.41 indicating that the internal audit works and support the achievement of objectives of the corporation.

The other items presented to the respondents regarding value added as a result of internal audit functioning were, the internal audit assists efficient and effective use of corporation's resources, the internal audit performs financial audit to ensure proper preparation of financial statements and internal audit follow up implementation of internal audit recommendation for improvement. The mean values of responses for these items were 4.37, 4.64 and 4.40 respectively indicates that internal auditing plays a great role in assisting efficient and effective use of resources, ensure proper preparation of financial statement and follow up for implementation of improvement. Finally, the grand mean for value added as a result of internal audit function is 4.28. An interview result relating to activities of

assessments and evaluation of internal control, risk management checking compliance to laws and regulations, fraud investigation and reviewing corporate governance also supports the conclusion that internal audit functions add value to the corporation objective. These reveal that value is added as a result of internal audit function practiced by the corporate internal audit.

#### **4.7 Audit Committee Support in maintaining Independence**

The success of internal audit relies on support given by audit committee in maintaining their independence. Items related with audit committee support in maintaining independence of internal audit are indicated in table 6 below to be rated by the respondents.

**Table 7: Audit Committee Support in maintaining Independence**

	Items	Mean	Std. Deviation
1.	Audit committee resolves the conflicts between the management and the internal audit	4.37	.65292
2.	The audit committee advice/instructs the management to take proper action against finding and recommendation of the internal audit	4.49	.70468
3.	Audit committee reviews the internal audit activities	4.59	.68083
	Aggregate mean	4.49	

As indicated in Table 7, the respondents agreed that audit committee resolves the conflicts between the management and the internal audit with mean value of 4.37. From this one can infer that audit committee support corporate internal audit service of the corporation in maintaining their independence. Similarly, the audit committee advice/instructs the

management to take proper action against finding and recommendation of the internal audit was agreed by the respondent with mean of 4.49. This indicates that as audit committee works on the implementation of audit finding by the management implying they support the independence of internal audit of the corporation. In the same way, audit committee reviews the internal audit activities were supported by the mean value of 4.59 by the respondents. Finally, the grand mean value for audit committee support in maintaining corporate internal audit independence is 4.48. This indicates that, audit committee supports internal audit in maintaining its independence.

#### 4.8 Management Action on Audit Findings

**Table 8: Management Action on Audit Findings**

Item	Mean	Std. Deviation
1. The management of the corporation takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors	4.40	.77110
2. Corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers	4.41	.65951
3. The internal audit department is responsible to follow up and ensure the corrective actions taken by the management on audit findings	4.45	.77622
Aggregate mean	4.42	

It can be seen from the table regarding the management of the corporation taking immediate corrective action against the internal audit comments to improve the weakness reported by the auditors agreed by the respondents with mean value of 4.40. This indicates that

the management of the corporation takes action as per the report of internal audit to improve the weakness reported. The other point presented to the respondents is the corporate executive officer seeks to follow up audit done by the internal audit to ensure the action taken by the sectors and centers. The mean value of response of the respondents on this item is 4.41. This indicates that the executive officer follow up the action taken by the sectors and centers regarding the audit findings reported by the internal auditors. The internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings was presented the respondents be rated. The mean value of respondents' response for this item is 4.45. According to the response of the respondents the internal audit department is responsible to follow the corrective actions taken on audit findings to report back the status of the findings for further action. On top of this the grand mean for management action on audit findings is 4.42 indicating that the management takes action on audit findings of the corporate internal audit service. At the same time the interviewee ensure the management corrective action against the internal audit findings and recommendations.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **Introduction**

This chapter deals with the summary of the study on assessment of internal audit practice in Ethiopian Construction Design and supervision Works Corporation. Based on the major findings, some summary and conclusions have been drawn and practical recommendations have been finally forwarded. .

#### **5.1 Summary of the Study**

The main purpose of this study was the assessment of internal audit practices in Ethiopian Construction Design and supervision Works Corporation. In particular, the study aimed to investigate the current practices of internal audit of the corporation. In order to achieve the above aims the following basic questions were set:-

1. Does the corporate internal audit structurally independent of the influence of the corporation management in performing audit activities?
2. Do the internal audit functions add value to the overall objective of the corporation?
3. Does the board audit committee assist the internal audit in maintaining its independence?
4. To what extent the management takes actions against the findings and recommendations of the internal audit?

A mixed research approach was employed to assess the practices of internal audit of the Ethiopian construction Design and supervision Works Corporation. From the different mixed research methods, concurrent embedded mixed research was employed. That is, both quantitative and qualitative data were collected at a time. Questionnaires and interview

questions developed by the researcher himself were used to collect data from the respondents. The validity and reliability of questionnaires were checked using validity. The sources of the data for the study were 75 respondents from the corporation. Simple random sampling was used to select the respondents. Mean values and standard deviation were used for data analysis.

To assess the independence of corporate internal audit from the corporation management in performing audit activities items on 5 point Likert scale was provided to the respondents. Thus, from the study it was found that there is an independence of internal audit department from the Ethiopian Construction Design Supervision management with aggregate mean value of 4.22.

Regarding the internal audit functions to add value to the overall objective of the corporation, the study revealed that, the internal audit adds value to the corporation with grand mean of 4.28. This reveals that value is added as a result of internal audit function practiced by the internal audit. Furthermore, the study assessed whether or not the board audit committee assists the internal audit in maintaining its independence. Similarly, the study revealed that the audit committee supports the independence of internal audit with aggregate mean value of 4.48 on scale running from one to five. This indicates that, audit committee supports internal audit in maintaining its independence.

To assess how audit committee assists the internal audit in maintaining its independence the finding of the study revealed that audit committee reviews the internal audit activities that results in to support the independence of internal audit of the corporation with the aggregate mean value of 4.48.

This describes that, audit committee supports internal audit in maintaining its independence.

Regarding the management actions taken on audit findings, the study revealed that the management take action on audit findings with the grand mean of 4.42, indicating that the management takes action on audit findings of the internal audit department.

## **5.2 Conclusion**

Based on the findings of the study, the following concluding remarks are drawn. The practice of the internal audit of Ethiopian Construction Design and Supervision Works Corporation is to the current level of professional development. The respondents' of the study agreed with practices done by the internal audit department. The findings have shown that Internal audit department of the Ethiopian Construction Design and Supervision is independent from the influence of the corporation management. This result has positive impact on the attempt to improve effectiveness of the department. In addition from the study it can be concluded that there is a value added to the corporation as a result of internal audit function practiced by the internal audit. Furthermore, the study concluded that audit committee supports internal audit in maintaining its independence which can facilitate to freely exercise its duties. Finally from the study it was concluded that the management of the corporation takes the corrective actions on audit findings for future improvement.

## **5.3 Recommendation**

Even though, the findings of the study revealed the overall practices of the internal audit of the Ethiopian Construction Design and supervision Works Corporation is to the standard, it is important to forward the following recommendations. The finding of the study regarding the internal audit functions comply with IIAs standards rated below the agreement. But, for the successful activities of the internal audit there must be compliance of



internal audit function with IIAs standard. Therefore, the audit committee, corporate internal audit service head and corporate management should give due attention for the compliance of internal audit function with the standard of IIAs. In the same way, the quality assurance program in the internal audit service is rated below agreement. However, for proper and effective function of internal audit the quality assurance review program in the corporate internal audit service should be strengthened.

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# APPENDICES

## APPENDIX A: QUESTIONNAIRE

### Dear Respondent,

This questionnaire is designed to gather relevant information for research entitled Assessment of internal audit practice of Ethiopian Construction Design and Supervision Works for partial fulfillment of an MBA degree in Accounting & Finance.

I kindly request you to fill in the questioner and provide the information that may be further required.

I would also like to note that the information you provide will be confirmed and used only for the academic purpose.

I would like thank you for your corporation in advance.

### Biographical information

Pleas circle the answer you choose you can choose one option only.

1. Gender                      Male                                      Female

2. How many years work experience as an employee of the corporation.

a. Less than a year

b. 1-3 years

c. 3-5 years

d. 5-10 years

e. 11 years above

3. Educational back ground

- a. PHD
- b. MA/ MSC
- c. BA/BSC
- d. Others

4. Position in the corporation

- a. Managerial
- b. Senior level
- c. Operational

5. Professional background

Finance

Administration

Engineering

**Part Two**

Examining the internal Audit activity

1. Do the internal audit have audit charter (Manual)

- a. Yes
- b. No

**Instruction:** - Below are statements pertaining to internal audit in the Corporation. Please indicate whether you agree or disagree with each statement by ticking the appropriate one from the options that range from strongly agree to strongly disagree?

Where 1= strongly disagree 2=disagree 3=No opinion 4= agree 5= strongly agree

<b>1</b>	<b>Internal Audit Independence</b>	1	2	3	4	5
1.1	The internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings					
1.2	The board audit committee approves the nomination and dismissal of the internal audit head					
1.3	Internal auditors freely incorporate any audit finding in their audit report					
1.4	The internal audit checks and report the corrective action taken relating to previous audit finding					
1.5	The environment in which the internal audit operates is conducive to promote independence in your corporation					
1.6	Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services					
1.7	The head of internal audit is free to develop strong relationships with the board and /or audit committee					
1.8	The board audit committee recognize and support the best conditions under which internal audit thrive					
1.9	Management and board support efforts to make the internal audit activity responsive and innovative					
1.10	Internal audit functions comply with IIAs standards					
1.11	The purpose and responsibility of internal audit is clearly defined in the audit charter					
1.12	There is quality assurance program in internal auditing department					
<b>2</b>	<b>Value added as a Result of Internal Audit Function</b>					
2.1	corporate auditors have deep knowledge of the corporation including its culture, key players, and competitive environment					
2.2	Internal auditors have broad knowledge of those practices the profession, in general ,considers value added					
2.3	corporate internal auditors have courage to innovate in a ways the users of the service don't expect and may not think they want					
2.4	Internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them					
2.5	The corporate internal audit works closely with business development and operations management to identify opportunities for business process improvements and cost saving					

2.6	The right partner can help the corporate internal audit function perform risk assessment that bring a fresh and independent prospective					
2.7	The corporate internal audit evaluates effectiveness of risk management process designed by the corporation					
2.8	The corporate internal audit provides independent assessments of risk					
2.9	The corporate internal audit evaluates internal controls, and effectiveness and efficiency of the operation of the corporation					
2.10	The internal audit assesses and evaluates the internal control system in place to achieve corporation's objectives					
2.11	The internal audit reviews the physical security of the corporation's assets					
2.12	The internal audit assists efficient and effective use of corporation's resources					
2.13	The internal audit performs financial audit to ensure proper preparation of financial statements					
2.14	Internal audit follow up implementation for improvement					
<b>3</b>	<b>Audit Committee Support in maintaining Independence</b>					
3.1	Audit committee resolves the conflicts between the management and the internal audit					
3.2	The audit committee advice/instructs the management to take proper action against finding and recommendation of the internal audit					
3.3	Audit committee reviews the internal audit activities					
<b>4</b>	<b>Management Action on Audit Findings</b>					
4.1	The management of the corporation takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors					
4.2	Corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers					
4.3	The internal audit department is responsible to follow up and ensure the corrective actions taken by the management on audit findings					



## **APPENDIX B: INTERVIEW**

This interview is designed to gather relevant information for research entitled assessment of internal audit practice in the case of Ethiopian Construction Design and Supervision Works Corporation in partial fulfillment of an MBA degree.

I would also like to note that the information you provided will be confidential and used only for specified purpose.

I would like thank you for your corporation in advance.

### **Participants Profile.**

What is your level of education?

How long have you worked in the corporation?

What is your professional background?

### **Interview questions.**

1. Tell me about establishment of internal audit in your corporation.
  - When was it established?
  - What led its establishment?
  - Does it have a charter (guidelines) approved by the board of directors?
  - What does the charter (guideline) incorporate?
  - How is audit acceptance and cooperation with internal audit in your corporation?
2. What is your understanding about internal audit practice and internal audit function in your corporation?
3. Are the role and benefits of internal audit sufficiently understood in your corporation?
4. Is internal audit head in higher position in your corporation and Management Commitment adds value to internal audit?
5. What is relationship of internal audit with board of directors /audit committee? Are there accounting/ finance experts in the board (audit committee)?
6. Who makes a decision to hire /remove the internal audit in your corporation?
7. Does internal audit reports audit findings to the audit committee freely?

8. Does corporation Management take corrective action regarding audit findings?
9. Is there follow up whether action taken on audit finding's reported by the auditors?
10. Does internal audit have sufficient budget and adequate number of auditors?
11. What do the competences of internal audit looks like in your corporation in terms of:-
  - Educational back ground?
  - Work experience?
12. What are the activities carried out by internal auditors in your corporation?
13. What activities do internal auditors do in relation to?
  - Internal controls
  - Performance audit
  - Risk management in the corporation
  - Compliance with laws and regulation
  - Fraud? It audit skill Vis-à-vis the need in your corporation
  - Corporate governance.
14. When was the last time that your internal audit charter reviewed?
15. Do internal audit carry out follow up audit to ensure the management action against audit findings?

### Appendix C: Descriptive statistics

**the internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	1	1.3	1.3	1.3
disagree	2	2.7	2.7	4.0
no opinion	1	1.3	1.3	5.3
agree	29	38.7	38.7	44.0
strongly agree	42	56.0	56.0	100.0
Total	75	100.0	100.0	

**The board audit committee approves the nomination and dismissal of the internal audit head**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.3	1.3	1.3
no opinion	4	5.3	5.3	6.7
agree	18	24.0	24.0	30.7
strongly agree	52	69.3	69.3	100.0
Total	75	100.0	100.0	

**Internal auditors freely incorporate any audit finding in their audit report**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	2	2.7	2.7	2.7
no opinion	1	1.3	1.3	4.0
agree	37	49.3	49.3	53.3
strongly agree	35	46.7	46.7	100.0
Total	75	100.0	100.0	

**The internal audit checks and report the corrective action taken relating to previous audit finding**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	2	2.7	2.7	5.3
Valid agree	28	37.3	37.3	42.7
strongly agree	43	57.3	57.3	100.0
Total	75	100.0	100.0	

**The environment in which the internal audit operates is conducive to promote independence in your corporation**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
Valid agree	45	60.0	60.0	62.7
strongly agree	28	37.3	37.3	100.0
Total	75	100.0	100.0	

**Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	2	2.7	2.7	5.3
Valid agree	23	30.7	30.7	36.0
strongly agree	48	64.0	64.0	100.0
Total	75	100.0	100.0	

**The head of internal audit is free to develop strong relationships with the board and /or audit committee**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	5	6.7	6.7	8.0
Valid agree	43	57.3	57.3	65.3
strongly agree	26	34.7	34.7	100.0
Total	75	100.0	100.0	

**The board audit committee recognize and support the best conditions under which internal audit thrive**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	3	4.0	4.0	5.3
Valid agree	46	61.3	61.3	66.7
strongly agree	25	33.3	33.3	100.0
Total	75	100.0	100.0	

**Management and board support efforts to make the internal audit activity responsive and innovative**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	3	4.0	4.0	6.7
Valid agree	44	58.7	58.7	65.3
strongly agree	26	34.7	34.7	100.0
Total	75	100.0	100.0	

**Internal audit functions comply with IIAs standards**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	3	4.0	4.0	4.0
no opinion	42	56.0	56.0	60.0
Valid agree	30	40.0	40.0	100.0
Total	75	100.0	100.0	

**The purpose and responsibility of internal audit is clearly defined in the audit charter**

	Frequency	Percent	Valid Percent	Cumulative Percent
strongl disagree	1	1.3	1.3	1.3
no opinion	4	5.3	5.3	6.7
Valid agree	21	28.0	28.0	34.7
strongly agree	49	65.3	65.3	100.0
Total	75	100.0	100.0	

**There is quality assurance program in internal auditing department**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	11	14.7	14.7	14.7
no opinion	44	58.7	58.7	73.3
Valid agree	14	18.7	18.7	92.0
strongly agree	6	8.0	8.0	100.0
Total	75	100.0	100.0	

**corporate auditors have deep knowledge of the corporation including its culture, key players, and competitive environment**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	2	2.7	2.7	2.7
disagree	1	1.3	1.3	4.0
no opinion	2	2.7	2.7	6.7
agree	57	76.0	76.0	82.7
strongly agree	13	17.3	17.3	100.0
Total	75	100.0	100.0	

**Internal auditors have broad knowledge of those practices the profession, in general ,considers value added**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	5	6.7	6.7	6.7
no opinion	1	1.3	1.3	8.0
agree	42	56.0	56.0	64.0
strongly agree	27	36.0	36.0	100.0
Total	75	100.0	100.0	

**corporate internal auditors have courage to innovate in a ways the users of the service don't expect and may not think they want**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	3	4.0	4.0	4.0
no opinion	3	4.0	4.0	8.0
agree	51	68.0	68.0	76.0
strongly agree	18	24.0	24.0	100.0
Total	75	100.0	100.0	

**Internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.3	1.3	1.3
disagree	2	2.7	2.7	4.0
no opinion	3	4.0	4.0	8.0
agree	39	52.0	52.0	60.0
strongly agree	30	40.0	40.0	100.0
Total	75	100.0	100.0	

**The corporate internal audit works closely with business development and operations management to identify opportunities for business process improvements and cost saving**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.3	1.3	1.3
disagree	2	2.7	2.7	4.0
no opinion	4	5.3	5.3	9.3
agree	53	70.7	70.7	80.0
strongly agree	15	20.0	20.0	100.0
Total	75	100.0	100.0	

**The right partner can help the corporate internal audit function perform risk assessment that bring a fresh and independent prospective**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.3	1.3	1.3
disagree	4	5.3	5.3	6.7
no opinion	10	13.3	13.3	20.0
agree	43	57.3	57.3	77.3
strongly agree	17	22.7	22.7	100.0
Total	75	100.0	100.0	



**The corporate internal audit evaluates effectiveness of risk management process designed by the corporation**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	5	6.7	6.7	6.7
no opinion	2	2.7	2.7	9.3
Valid agree	45	60.0	60.0	69.3
strongly agree	23	30.7	30.7	100.0
Total	75	100.0	100.0	

**The corporate internal audit provides independent assessments of risk**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	1.3	1.3	1.3
disagree	3	4.0	4.0	5.3
Valid no opinion	2	2.7	2.7	8.0
agree	23	30.7	30.7	38.7
strongly agree	46	61.3	61.3	100.0
Total	75	100.0	100.0	

**The corporate internal audit evaluates internal controls, and effectiveness and efficiency of the operation of the corporation**

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.3	1.3	1.3
disagree	2	2.7	2.7	4.0
Valid agree	24	32.0	32.0	36.0
strongly agree	48	64.0	64.0	100.0
Total	75	100.0	100.0	

**The internal audit assesses and evaluates the internal control system in place to achieve corporation's objectives**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	1	1.3	1.3	2.7
Valid agree	22	29.3	29.3	32.0
strongly agree	51	68.0	68.0	100.0
Total	75	100.0	100.0	

**The internal audit reviews the physical security of the corporation's assets**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	1	1.3	1.3	4.0
Valid agree	36	48.0	48.0	52.0
strongly agree	36	48.0	48.0	100.0
Total	75	100.0	100.0	

**The internal audit assists efficient and effective use of corporation's resources**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	1	1.3	1.3	2.7
Valid agree	42	56.0	56.0	58.7
strongly agree	31	41.3	41.3	100.0
Total	75	100.0	100.0	

**The internal audit performs financial audit to ensure proper preparation of  
financial statements**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	2	2.7	2.7	4.0
Valid agree	20	26.7	26.7	30.7
strongly agree	52	69.3	69.3	100.0
Total	75	100.0	100.0	

**Internal audit follow up implementation for improvement**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.4	1.4
no opinion	2	2.7	2.7	4.1
Valid agree	38	49.3	50.0	54.1
strongly agree	34	46.7	45.9	100.0
Total	75	100	100.0	

**Audit committee resolves the conflicts between the management and the internal  
audit**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.3	1.3	1.3
no opinion	4	5.3	5.3	6.7
Valid agree	36	48.0	48.0	54.7
strongly agree	34	45.3	45.3	100.0
Total	75	100.0	100.0	

**The audit committee advice/instructs the management to take proper action against finding and recommendation of the internal audit**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	3	4.0	4.0	6.7
Valid agree	26	34.7	34.7	41.3
strongly agree	44	58.7	58.7	100.0
Total	75	100.0	100.0	

**Audit committee reviews the internal audit activities**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	2	2.7	2.7	5.4
Valid agree	20	26.7	27.0	32.4
strongly agree	50	66.7	67.6	100.0
Total	74	98.7	100.0	
Missing System	1	1.3		
Total	75	100.0		

**The management of the corporation takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	4	5.3	5.3	5.3
no opinion	1	1.3	1.3	6.7
Valid agree	31	41.3	41.3	48.0
strongly agree	39	52.0	52.0	100.0
Total	75	100.0	100.0	

**Corporate executive officer seeks follow up audit by the internal audit to ensure  
the action taken by the sectors and centers**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	2.7	2.7	2.7
no opinion	1	1.3	1.3	4.0
Valid agree	36	48.0	48.0	52.0
strongly agree	36	48.0	48.0	100.0
Total	75	100.0	100.0	

**the internal audit department is responsible to follow up and ensure the corrective  
actions taken on audit findings**

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.3	1.3	1.3
disagree	2	2.7	2.7	4.0
no opinion	1	1.3	1.3	5.3
Valid agree	29	38.7	38.7	44.0
strongly agree	42	56.0	56.0	100.0
Total	75	100.0	100.0	