



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

**THE ROLE OF INTERNAL AUDIT PRACTICE IN PROMOTING
OPERATIONAL COMPLIANCE: THE CASE OF ADDIS ABABA
HOUSING DEVELOPMENT CORPORATION**

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June, 2021 G.C

Addis Ababa, Ethiopia

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COMPLIANCE: -THE CASE OF ADDIS ABABA HOUSING DEVELOPMENT
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SGS/0453/2012A**

**A THESIS SUBMITTED TO SAINT MARY'S UNIVERSITY, SCHOOL OF
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ASST. PROFESSOR MOHAMMED SEID**

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Statement of Declaration

I, **Fikirte Mamo**, the under signed, declare that this thesis entitled: “**The role of internal audit practice in promoting operational compliance: -Evidence from Addis Ababa Housing Development corporation**” is my original work. I have undertaken the research work independently with the guidance of Asst. Professor Mohamed Seid. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that the thesis presented by Fikirte Mamo entitled: “**The role of internal audit practice in promoting operational compliance: -Evidence from Addis Ababa Housing Development Corporation**” in Partial fulfillment of the requirement for degree of MBA in Accounting and Finance fulfills with the regulation of university and meets the accepted standards with respects to originality and quality.

Name: Asst. Professor Mohamed Seid

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Date: _____

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Table of Contents

STATEMENT OF DECLARATION	I
STATEMENT OF CERTEFICATION	ERROR! BOOKMARK NOT DEFINED.
ACKNOWLEDGEMENT	III
LIST OF TABLE AND FIGURE	VIII
ACRONYMS AND ABBREVIATIONS	IX
TABLE OF CONTENTS	IV
ABSTRACT	VIII
CHAPTER ONE	1
1. Introduction	1
1.1 Background of the Study	1
1.2 Background of the Organization	2
1.3 Statement of Problem	3
1.4 Research Questions	5
1.5 Objective of the Study	5
1.5.1 General Objective	5
1.5.2 Specific Objectives	5
1.6 Significance of the Study	6
1.7 Scope of the Study	7
1.8 Limitation of the study	7
1.9 Organization of the Study	7

CHAPTER TWO	8
2. Review of related literatures	8
2.1 Conceptual/Theoretical Review	8
2.1.1 Internal control and its role in organization	8
2.1.2 Internal Audit and Internal Control in an organization	11
2.1.3 The history of internal audit in Ethiopia	14
2.2 Theoretical Framework	15
2.2.1 Reporting on Compliance with Laws and Regulations	16
2.2.2 The Single Audit Act	16
2.2.3 Audit Coverage	16
2.2.4 Reports	16
2.2.5 Report on Compliance with General Requirements	17
2.2.6 The Nature of Operational Auditing	19
2.2.7 Performing Operational Audits	21
2.2.8 Management Requests an Operational Audit	21
2.2.9 Obtaining an Understanding of the Internal Audit Function	21
2.2.10 Effect of the Internal Auditors' Work on the Audit	22
2.3 Empirical Review	23
2.4 Summaries and Research Gap	27
CHAPTER THREE	29
3. Research design and methodology	29
3.1 Research Design and Approach	29
3.1.1 Geographical Description and Population	29
3.1.2 Sample Design	29
3.2.3 Sample Size Determination	30
3.3 Type of Data and Method of Data Collection	31
3.3.1 Type and Source of Data	31

3.3.2 Data Collection and administration procedures _____	31
3.3.3 Reliability and Validity of the Instrument _____	32
3.3.4 Ethical Consideration _____	32
3.4 Data Analysis and Mode of Presentation _____	33
3.5 Reliability Analysis _____	34
TABLE 3.1 RELIABILITY STATISTICS FOR EACH AND GRAND COMPONENTS _____	35
CHAPTER FOUR _____	34
DATA PRESENTATION AND ANALYSIS _____	34
4.1. General information about Collected Data _____	34
4.2. Profile of respondent _____	35
4.2.1 Summary of Respondents' Profile _____	36
Table 4.2 summary of respondents' profile _____	36
Table 4.3 Descriptive Statistics regarding to current trend of internal audit practice _____	40
Table 4.4 Descriptive Statistics regarding to the extent of adherence to operational compliance _____	43
Table 4.5 Descriptive Statistics regarding to the role of internal audit practice in promoting operational compliance _____	46
CHAPTER FIVE _____	52
5. SUMMARY, CONCLUSION AND RECOMMENDATION _____	52
5.1 Summary _____	52
5.1.1 Findings that detected from respondents' profile _____	52
5.1.2 Findings that related to the current trend of internal audit practice _____	52
5.1.3 Findings that related to the extent of adherence to operational compliance _____	53
5.1.4 Gaps that observed to the roles of internal audit in promoting operational compliance. _____	53
5.2 Conclusion _____	54
5.3 Recommendations _____	55

5.4 Future Direction of Research	57
References	58
APPENDIX 1	XI

List of Table and Figure

Table 3.1 Reliability Statistics For each and grand components	35
Table 4.2 summary of respondents' profile	36
Table 4.3 Descriptive Statistics regarding to current trend of internal audit practice	40
Table 4.4 Descriptive Statistics regarding to the extent of adherence to operational compliance	43
Figure 2.1 COSO Framework Cube.(Graham, 2015)	9
Figure 2.2 The Three Lines of Defense Model. (IIA, 2013).....	13

Acronyms and abbreviations

A.A.H.D.C	Addis Ababa Housing Development Corporation
AICPA	America Institute of Certified Public Accountant
ASQ	American Society for Quality
CAE	Chef Audit Executive
COSO	Committee of Sponsoring Organizations of the Tread way Commission
CPA	Certified Public Accountants
ETB	Ethiopian birr
IAAs	Internal Audit Activities
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
IPPF	International Professional Practicing Framework
OMB	Office of Management and Budget
SEC	Securities and Exchange Commission
SPSS	Statistical Package for Social Sciences

ABSTRACT

The objective of this study is to investigate the role of internal audit practice in promoting operational compliance in case of Addis Ababa Housing Development Corporation. By adopting descriptive research design through using census sampling technique, both primary and secondary data have been used. Totally 50 self-administered questionnaires were distributed to Finance Managers, Internal Auditors, and Senior Accountants in the study area. From these 50 (100 % response rate) questionnaires were completely filled and returned from the organization. The Collected data was edited, coded, and entered in to the computer using SPSS 23 and was then scored. Data analyses are conducted through a descriptive statistic to provide details. The major finding of the research shows that their IAAs done through experiences without acquiring adequate trainings, their audit departments is poorly staffed, internal audit risk assessment activity have not implemented in all the functions and processes of the organization, and risk identification process had not undertaken sufficiently, the organization has not been able to identify and validate customers' needs and expectations, Compliance with laws, regulations, & contracts even the audit plan were not prepared according to Risk based approach and there were no Evaluation of projects and program accomplishments. Based on these findings the study recommended to enhance the role of internal auditors through training of staff in accredited institutes at home and abroad, preparing a comprehensive charter that incorporate all the activities of internal auditing, hiring compliance officers, establish compliance framework, periodic audits on the compliance function and adherence to the compliance framework, and provide applicable legislation. The organization set adequate internal audit staff including compliance framework with compliance officers, Internal audit risk assessment activity must be implemented in all the functions and processes and all risks properly identify, the organization should be able to identify customer's needs and expectation, The internal audit department must be followed up each activity Compliance with laws, regulations, & contracts.

Key Words: Operational Compliance, Internal Control, Internal Audit.

CHAPTER ONE

1. Introduction

The following section of the first chapter introduces the background of the study and which includes the discussion on the issues of internal control and its importance in maintaining operational compliance. It also will try to provide a glimpse of the organization under study and the motivation for doing this particular research.

1.1 Background of the Study

In order to assure shareholders and to manage those risks, companies increased their interest in internal control and internal audit. “Internal Audit’s objectivity, perspective, and skills can assist stakeholders and provide valuable insight”. (McDonnell, Kinsella and Healy, 2017) “Internal control is recognized as a key corporate governance mechanism and disclosure of information about internal control systems is viewed as a significant component in the process of restoring public trust in corporate probity in the wake of financial scandal” (Spira&Gowthorpe, 2008).

ASQ (American Society for Quality) describes internal auditing as a “first party audit”. It “is performed within an organization to measure its strengths and weaknesses against its own procedures or methods and/or against external standards adopted by (voluntary) or imposed on (mandatory) the organization. A first-party audit is an internal audit conducted by auditors who are employed by the organization being audited but who have no vested interest in the audit results of the area being audited” (Russell, 2013).

The organization states its objectives in a mission and vision statements. Mission statement conveys what the organization is and what it wants to achieve today. Vision statement communicates aspirations to what it intends to achieve in the future (Reding et.al, 2013) *Olga Bubilek*.

Business objectives’ categorization is a matter of discussion and believes. COSO (Committee of Sponsoring Organizations of the Tread way Commission) categorizes them as follows (Reding et.al, 2013)*Olga Bubilek*: Strategic objectives are about what managements do and plan

(strategy) in order to create value for the organization's stakeholders, Operations, objectives focuses on organization's operations in order to increase effectiveness and efficiency, Reporting objectives are about reporting internal and external information and the level of its reliability, Compliance objectives concentrate on existing laws and regulations and their implementation in the organization.

According to Pickett (2005), Internal auditors are able to assist top management with the following: Monitoring activities, identifying opportunities and minimizing risks of failure, Validating reports to senior management, protecting senior management in technical analysis that is beyond their knowledge, Providing information for the decision-making process, Reviewing for the future as well as for the past, Helping line managers manage by pointing to violation of procedures and management principles.

1.2 Background of the Organization

Addis Ababa Housing Development Corporation was established by establishment proclamation No33/1996, and it is also established by the successive proclamation of No. 33/1996 and No. 33/2000. The main Vision was to build quality and standardized houses for low and middle income residents of Addis Ababa and enables them be owners of houses by 2020.and the final Mission was Alleviating house shortage in Addis Ababa city by upgrading integrated system that involves contractors, counselors, small and micro enterprises, as well as strengthen construction industry by using vast labor power, build up condominium houses and make the residents house owners through fair distribution. (www.aahdc.com)

Addis Ababa Houses Development corporation was established having legal personality and with a capital of; Total authorized capital: Birr 50,000,000.00 (Fifty Million Birr) which is Payment in kind of the part of the capital: Birr 20,000,000.00 (Twenty Million Birr) and Money paid in cash: Birr 30,000,000.00 (Thirty Million Birr). (www.aahdc.com)

Addis Ababa housing development corporation has one head office, it is located around bambis supermarket and it has 18(eighteen) project offices. All project offices are located around Addis Ababa border construction areas and the total employees are 3210(three thousand two hundred ten) and each project has an average of 110(one hundred ten) employees approximately and the remaining are at head office. (www.aahdc.com)

1.3 Statement of Problem

There is a call for improved accountability and great transparency that resulted in more information about government programs and services that in turn requires improved financial reporting system. At the same time, the increased emphasis on accountability and improving public enterprise performance has demanded management to “protect” itself by improving the IAF(internal audit function) procedures that will provide them some minimal assurances of meeting these external demands.

According to the Federal government of Ethiopia Financial Administration Proclamation number 648/2009 Art 7, the Internal Audit of public bodies are responsible for conducting internal audit at specific intervals to evaluate the performance of the public body and to ascertain that public money and public property are used for intended purposes, and submitting audit reports to the head of the public body and to the Minister, follow-up measures taken based on audit findings.

The law assumes that if the internal auditors perform their duty properly and effectively, the public money can be safeguarded proactively so that it will not be subjected to maladministration. In effect it enables the proactive safeguarding the public money from any public servant who, with intent to obtain for him or to procure for another an undue advantage and by any means, injures the public interests entrusted to his charge and which it is his duty to protect.

The key point, of public sector audit activities must be configured appropriately to enable public sector entities to fulfil their duty to be accountable and transparent to the public while achieving their objectives effectively, efficiently, economically, and ethically (IIA, 2012). For example in Ethiopia internal auditors are employed to provide an independent and objective opinion to the head of public body on risk management, control and governance by measuring and evaluating their effectiveness in achieving the public body’s agreed objectives and provide an independent and objective consultancy service specifically to help management improve the public body’s risk management, control and governance and applies professional skills through a systematic and disciplined evaluation of the policies, procedures and operations that management put in

place to ensure the achievement of the public body's objectives and through recommendations for improvement (Internal Audit Training Manual, 2005).

Furthermore, Internal Audit Training Manual,(2005), of Ethiopia identified challenges hindered the role of internal audit such as lack of management respect this also supported Odowa, (2015), Fekadu,(2009), lack of independence, assigned of internal auditors to many tasks and being ignored and lack of professional development which is supported by (Amina, 2016).

In addition to that the recent research on internal audit practices case of Ethiopian governmental higher educational institutions Explained by Bethlehem Fekadu, (2009) conducted that there are many bottle necks that faces the internal audit of Ethiopian public sector like, lack of developmental programs for internal auditors also supported by Odowa, (2015), no audit committee and internal audit charter in the institution to enhance the independence of the internal auditors, and other organizational factors are critical factors influencing effectiveness of IAF in the public universities.

The (year) audit report on the HDC has reported serious issues that have created operational challenges to the company. Among the major problems stated on the audit report: selection of contractors and allowing them to consult on the projects they have not won, the limited level of skilled manpower in SME(small and micro enterprise) who are under taking housing construction, lack of periodic follow up and report from the consultants, delays in purchase of construction materials, lack of periodic disbursements to contractors which is pushing the corporation for frequent lawsuit are stated the main factors in adhering to operational compliance.

Also recent research on internal audit practice of Somali Regional Government Public sector offices by Odowa, (2015), noted that internal audit is not free from intervention in performing it duties and internal auditors are not feel free to include any finding in to their audit report , lack of periodical internal audit assignment rotation, lack of budget to carry out beyond financial and compliance audits, no possess knowledge & skills in a variety of areas beyond accounting & finance as necessary, internal auditors do not undertake continuous professional development activities, the scope of the internal audit function did not yet go far to cover scope of internal

audit and much time is devoted in performing financial and compliance audits, absence of risk assessment in audit planning and internal audit plan is not based on organizational risk profile factors are critical factors influencing effectiveness of IAF in the Public sector offices (Odowa, 2015).

Previously there were some studies conducted on internal audit areas in Ethiopia such as Mihret, and Yismaw, (2007) has been conducted on internal audit effectiveness in Ethiopian public universities, Hamdu Kedir and Addisu Gemedu, (2014) has been studied internal auditing standards and its practice the case of East Arsi Zone, Ethiopia, Odowa, (2015) has been undertaken research on Internal audit practice the case of Somali Regional Government Public sector offices, Ethiopia and (Amina, 2016) has been conducted the research on The Role of Internal Auditors in Private and Public Organizations of Jimma Zone Selected Weredas.

The lack of studies on the Housing Development Corporation (H.D.C) and the limitation of past studies along with the problems stated above have been the motivation behind this study. In line with this fact, this study attempts and examines the role of internal audit practice in promoting operational compliance Evidence from Addis Ababa Housing Development Corporation.

1.4 Research Questions

The study will try to answer the following questions:

1. What is the current trend in internal audit practice of A.A.H.D.C?
2. What is the extent of adherence to operational compliance in case of A.A.H.D.C?
3. What are the roles of internal audit in promoting operational compliance in case of A.A.H.D.C?

1.5 Objective of the Study

1.5.1 General Objective

The general objective of the study is to investigate the role of internal audit practice in promoting operational compliance in the case of Addis Ababa Housing Development Corporation.

1.5.2 Specific Objectives

Based on the general objective, the study encompasses the following specific objectives to assess the current trend of internal audit practice in case of Addis Ababa housing Development Corporation.

1. To assess the current trend of internal audit practice in case of A.A.H.D.C.
2. To investigate the extent of adherence to operational compliance in case of A.A.H.D.C.
3. To identify the roles of internal audit in promoting operational compliance in case of A.A.H.D.C.

1.6 Significance of the Study

The significance of study resource based on the organization Annual Audit Report, Financial Report and Operational report .The demands on the internal audit departments of Construction Company have increased significantly in recent years as technology advances, regulation becomes more rigorous, new risks emerge, and companies seek more business insights. Internal audit plays a crucial role in providing assurance on an organization's governance, risk management, and control processes to help achieve strategic, operational, and financial objectives while balancing compliance objectives and expectations from regulators. Internal audit departments need to leverage an understanding of construction industry trends, feedback from leadership, regulatory compliance requirements, and available public information to add value to the organization to optimize internal audit value. Construction companies' internal audit departments have more demands than many other organizations, namely because they are providing assurance insight and consultation on risk management to an industry that executes risk management as its operations. However, because construction industries are operating in an environment of ever-increasing change and regulation, internal audit has vast opportunities to improve and provide value optimization.

Accordingly the significance of the study throughout the country in the past two decades the construction industry in general and the housing development sector, in particular, has witnessed significant developments including the consolidation of institutions, the globalization of operations, and the introducing of new technologies. The findings of this study will help internal auditors, management in construction sector, academicians, and students of various fields in gaining more knowledge on the use, importance and need for internal audit in promoting

operational compliance. (Resource based on the organization Annual Audit Report, Financial Report and Operational report)

1.7 Scope of the Study

This study is geographically extended to all project offices of Addis Ababa Housing Development Corporation. And the time horizon is starting from 2008 E.C. because internal audit practice consists of broad concepts and issues; this research focuses on the role of internal audit practices in promoting operational compliance.

1.8 Limitation of the study

Like any other study, this study has its own limitations. The major limitation is that it is partly based on perceptions of the internal audit staffs, finance manager and senior accountants of the case organization. As such, individuals' perceptions are not claimed to accurately measure the underlying reality that they are supposed to represent and also the focal point of the study was Addis Ababa Housing Development Corporation. The compliance variables are diverse and complicated. Therefore, this study was limited to the role of internal audit practice in promoting operational compliance.

1.9 Organization of the Study

This study is organized in to five chapters. Chapter one presented the introduction of the study which includes background of the study, background of the organization, statement of problems, objective of the study, scope of the study, and significance of the study. Chapter two presents the literature review regarding the research area of the role of internal auditing in promoting operational compliance and therefore sets out the theoretical and empirical foundations for the research. In chapter three the study will address research methodology, data sampling, research design, and chapter four will provide detail data analysis And Discussions and the final chapter will make conclusions and possible recommendations.

CHAPTER TWO

2. Review of Related Literatures

2.1 Conceptual/Theoretical Review

The first report of IIA (institute of internal audit) concerned the role of internal audit in relation to control and accountability (IIA, 1999a). The report acknowledges the shift from financial and compliance audit to operational audit, but also notes the hype surrounding the word operational audit. Various internal auditors each have a different explanation of the term, varying from accounting control to overall quality of a company's internal control.

A logical interpretation of the scope of operational audit would be 'operational activities' or 'the operations'. This is different from an audit on the controls for financial reporting, although there can be some overlap. In general, the members of the IIA concluded that internal audit should have a wider scope than just reliability of financial reporting information. Efficiency of the primary process should also be in the scope. As a consequence, amore multidisciplinary audit function was suggested to manage this broader scope with sufficient quality.

Another definition of internal auditing is presented by Soltani (Soltani, 2007) . It states that internal audit is “an appraisal activity established within a company as a service, its function includes examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems” .

2.1.1 Internal control and its role in organization

The most holistic view on the role of the internal control in organization or enterprise is presented by the internal control framework. It connects definition and main components of internal control. In this research, the role of internal control is represented by the Internal Control Framework developed by COSO. COSO Framework is the most widely recognized and implemented.

Moreover, it is also well developed, being published already in the year 1992 and recently updated in 2013. Therefore, it gives comprehensive knowledge on the subject. Other known frameworks exist: COCO (Criteria of Control) by the Canadian Institute of Chartered

Accountants (CPA Canada); The Turnbull Report by The Financial Reporting Council in UK and J-SOX by Business Accounting Council of the Japanese Financial Services Agency. They are not so popular worldwide and tend to be mostly implemented in their countries of origin. (Graham, 2015; Schell, n.d.; Lexology.com, 2008) However, their objectives and frame work for internal control are typically similar.



Figure 2.1 COSO Framework Cube.(Graham, 2015, p.4)

Figure 2.1 shows the 2013 updated COSO Framework. It is depicted in the form of cube, to represent the fact that components are affecting each other and “the entity either on an entity-wide basis or specifically on a divisional, regional or product line basis” (Graham, 2015).

As it is visible in Figure 1, internal control has five main components shown in the rows (Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring Activities).

They compose the “effective” internal control and allow for achieving entity’s goals by the fulfillment of objectives. Objectives are shown in vertical columns (Operations, Reporting and Compliance). They have an impact on the organizational structure level of the entity (Entry Level, Division, Operating Unit and Function) shown by the third dimension of the cube.

As it is stated in COSO definition, internal control is a process that assures achievement of objectives:

- Operational – Efficient and Effective Operations
- Reporting - Reliable Financial Reporting
- Compliance – with Laws and Regulations

Five main components, application which creates control (Graham, 2015; Rutgers Accounting Web, 2015):

- Control environment - what kind of message the management sends to its employees about the importance of internal control.
- Risk assessment - management performs risk assessment; they put the effort where their greatest risk is; risks for which internal controls are set up must be reliable to the risks and everyday problems of employees.
- Control Activities - actual controls that are in place, for example, segregation of duties, authorization and transactions.
- Information and Communication - how are the results and to whom are the results communicated in the organization? How the departments communicate between each other? Is it internal communication (within organization) and also external(to shareholders).
- Monitoring - how are the controls monitored by management; regular monitoring to uncover issues and ensure that the problem is communicated and solutions are found; an answer to dynamically changing environment.

Together, with the third dimension of the cube, components, and objectives of the COSO Framework create an opportunity for effective internal control implementation. “Business environment and management policy are also effective in creating control environment.

Risks identified in terms of an entity’s strategic, financial and operational objectives have a significant role in determining the design of control activities. Information, communication and monitoring also help to assess and review the efficiency of control activities.”(Uzun , 2009)

The role of internal control is to help the organization achieve specific goals or objectives. COSO Framework’s role is to drive internal controls and to allow the realization of these goals

using improved organizational performance and governance. Therefore, it is vital that all structures comply with internal control principles. Principles must also be relevant to the organization. Only in this way the value-adding internal control is created.

Key benefits of implementing internal control are increased efficiency of operations and management of risks. However, management will also be supported by (Uzun, 2009):

- Application of standardized procedures, rules, and regulations;
- securing entity's current assets;
- providing reliable financial reporting;
- ensuring compliance with laws and regulations;
- Elimination of income or resource losses;
- goal-oriented and accurate decision making;
- Identification and prevention of fraud

During the development of internal controls, it is responding to specific and main risks. It must also be cost efficient and comprehensive, as well as consistent and well understood By all employees (Mosher, 2009). Internal control is part of basic instruments of enterprise control that allows companies to achieve an advantage over others in their industry.

According to Lakis and Giriunas (2012), only effective internal control can give potential to achieving goals and tasks. It does so by risk control and the ability to perceive and eliminate threats. Internal control is a source of security in the ever-changing business environment rather than just financial control. Therefore, it should be well implemented, monitored and constantly updated in an organization.

2.1.2 Internal Audit and Internal Control in an organization

Internal audit and internal control may seem similar at the first look. Both departments work towards improvements of processes and fulfilling the organization's goals and objectives. Internal audit assists to manage risks, and internal control performs audits. "They both use auditing techniques and analytical tools to assess and evaluate the business environment"(Hightower,2008).

Even historically, internal audit and internal control have been developing similarly and have been mainly connected with checking of accounts. Although, the final goal is same, internal audit and internal control are different regarding the functional level. They also differ in the degree of independence, responsibility and reporting level in the organizational structure. They have different frequencies and reach of their activities.

Internal audit is “a function, while internal control is a system”, it means that “internal audit assesses the effectiveness of controls put in place to mitigate risks. “(Manoukian, 2016). Therefore, internal audit is not responsible for identifying risks or putting controls in place. However, internal audit can assist in this process by its consulting activities. It assesses the viability of solutions and processes that internal control has developed.

It is a role of internal control to identify risks relevant to operations and development of reliable controls. “An internal control differs from internal audit in that it is not just about assessing and evaluating a company’s compliance posture in an oversight capacity, but the internal control function needs to be a proactive participant in defining, documenting, communicating, educating, testing, and supporting the company’s operational and financial goals and objectives.”(Hightower, 2008).One of the most important and biggest differences between those two concepts is in the organizational structure. Internal audit is independent of the organization’s management, usually reporting to the Board of Directors or Audit Committee. Internal audit is also responsibility of Internal Auditor. On the other hand, internal control is developed in cooperation with and for the operational management.

Therefore, the operational management is responsible for the adequate implementation and use of the controls on an everyday basis. (Manoukian, 2016) Another difference is in frequency. As said before internal controls are used on an everyday basis in all departments it has been developed for. Internal audit is performed at various times, and in different departments at the time. Roles of internal audit and internal control are well presented by the concept of “Three Lines of Defense Model”. This model is a representation of how different specialties and teams can effectively and efficiently cooperate for the risk management.

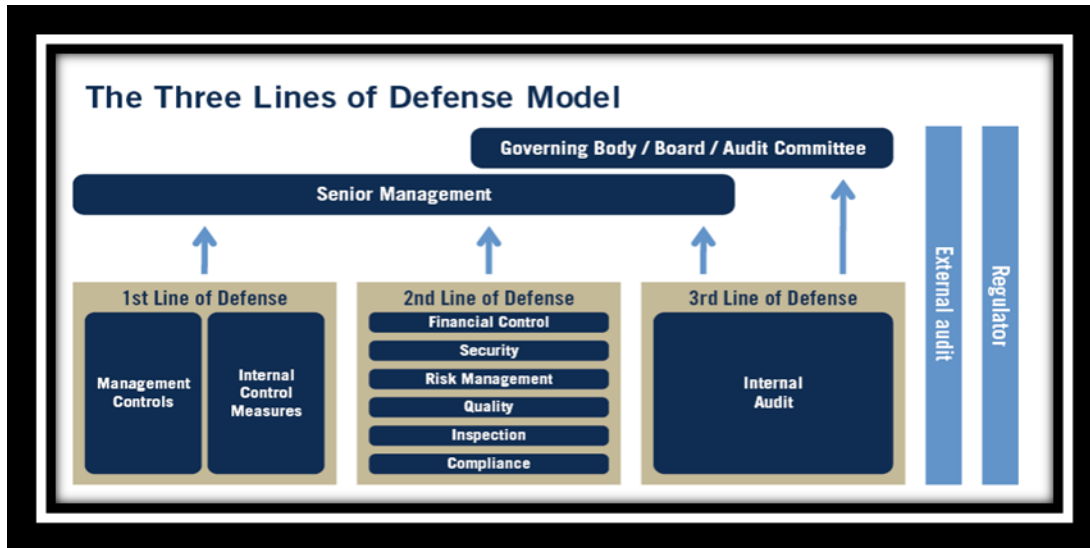


Figure 2.2 The Three Lines of Defense Model. (IIA, 2013, p.2)

Figure 2.2 presents a model of defense against risk. It recognizes three lines or groups of specialties. They all have different responsibilities in the organization's risk management and control. All distinctive groups also serve and report to various stakeholders. In the first line of defense, there are Management Controls and Internal Control Measures. They refer to the operational management of the organization. Operational management owns risks, manages risks and implements internal controls processes for everyday use. It is a natural first line of defense. Internal control and risk management activities are designed for operational systems and processes of the organization. (Sun, 2013; IIA, 2013)

In the second line of defense, there are Financial Control, Security, Risk Management, Quality, Inspection, and Compliance. It is composed of multiple functions, which are established by management. They ensure that the first line of defense is well designed, in the right place and functioning well. They also oversee risks and permanent controls.

They are management functions by nature, but they already have some degree of independence from the first line.(Sun,2013;IIA,2013) In the third line of defense, there is Internal Audit.

Internal audit provides the most comprehensive assurance about controls, risk management and governance based on the highest level of objectivity and independence (Sun, 2013; IIA, 2013) .

The first and second lines of defense are reporting to the Senior Management, while Internal Audit is reporting to the governing body. Internal audit function will also provide recommendations to the Senior Management to improve inaccurate processes or to fix errors. Internal Audit is also more independent than the second line of defense and even more than the first line of defense. In this way, it is fostering professionalism and honest reporting on the state of processes in an organization.

2.1.3 The history of internal audit in Ethiopia

Internal audit as a separate function appeared during the Derg regime. Initially the political orientation of Derg was communism. But as its history manifests it gradually tilted to include the concept private property ownership in its political orientation. Because of this, in the year of 1987, the mixed economy political program declared in the country by the Derg Government. This paradigm tilt causes many legal changes. One of these changes was the empowerment of the public enterprises in their business doing. This empowerment entails the need to control the managerial activities through internal auditing unit.

As Lemma Argaw explained internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s. The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance.

By the promulgation of Proclamation No. 13/1987, the Auditor General was mandated a new task in addition to its standard service, to monitor and regulate internal auditing in government offices and state-owned enterprises, to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations. After the fall of Derg regime, the political economy orientation of the ruling government is totally changed and many state-owned enterprises become main actors in the economy and the public service institutions also become big.

This development dramatically expanded the public budget to be allocated. Because of this Government has taken the initiative to improve and strengthen the internal auditing practice both in public bodies and fully and/or partially Government owned enterprises. Thus, Government has taken the initiative to further enhance good governance, transparency, accountability and efficiency and effectiveness of its operations, including compliance risk management and the internal control framework of Ministries and all government entities that directly receive and manage budget allocations.

2.2 Theoretical Framework

In practice, governmental attestation engagements have reported on contract costs, compliance with laws or regulations, proforma information, and management’s discussion and analysis in governmental bond offerings.

Governmental attestation engagements follow the AICPA’s Statements on Standards for Attestation Engagements, although the “Yellow Book” includes additional field work and reporting standards, such as an obligation to obtain and report management’s views about fraud or abuse an auditor detects.

Performance audits assess the performance and management of a governmental program—say, for example, a publicly funded elementary education grant against objective criteria either specified in the grant program or compiled from best practices. In practice, performance audits take a variety of forms, among them economy and efficiency audits and program audits. **Economy and efficiency** audits determine (1) whether an entity acquires, protects, and uses resources economically and efficiently, (2) the causes of diseconomies or inefficiencies, and (3) whether the entity has complied with laws and regulations that be apron economy and efficiency. Policy Analysis and Government Accountability recommended intensive marketing efforts to increase the high school’s reach, particularly to parents of school age children. Manoukian, J. (2016)

Program audits determine (1) the extent to which a program achieves the results or benefits established by the granting legislature or authorizing body;(2) the effectiveness of an

organization, program, activity, or function; and (3) whether the entity complies with laws and regulations applicable to the program.

2.2.1 Reporting on Compliance with Laws and Regulations

In a governmental financial audit, the auditor is required to test an entity's compliance with applicable laws and regulations and to prepare a written report that provides: (1) Positive assurance on the results of tests for noncompliance, and (2) A description of material instances of noncompliance, if any.

For example, assume that, coincident with tests designed to determine whether a governmental entity's financial statements are free of material misstatement, an auditor tests items subject to laws or regulations but detects no material instances of noncompliance. In this case, the auditor provides positive assurance using language such as, "tests disclosed no instances of noncompliance." Manoukian, J. (2016)

2.2.2 The Single Audit Act

Financial audits and performance audits are performed annually by governmental or independent auditors for the states, for state agencies, and for local governmental units such as cities, towns, counties, school districts, fire districts, housing authorities, and port authorities, among others. To assure accountability for federal grant funds received by these entities, the federal government required periodic audits of each grant received. Manoukian, J. (2016)

2.2.3 Audit Coverage

The Single Audit Act (and Amendment) applies to all governmental units that receive any federal assistance, although the reporting requirements of the Act apply generally to governments receiving over \$300,000 in grant funds per year. Although far-reaching, the Single Audit Act does not limit the authority of federal agencies to conduct additional audits as deemed necessary. However, the single audit is the definitive audit of federal assistance programs and, as a result, additional audits must be done at the cost of the federal agency requiring the audit, not at the cost of the grant recipient.

2.2.4 Reports

In addition to a report on the general purpose financial statements required by generally accepted auditing standards and reports on compliance with laws and regulations and on internal control required by government auditing standards, the Single Audit Act and U.S. Office of Management

and Budget (OMB) Circular A133, “Audits of States, Local Governments, and Non-profit Organizations, “Require no less than five additional reports: (1) Report on Compliance with General Requirements (2) Report on Major Program Compliance with Specific Requirements (3) Report on No major Program Compliance with Specific Requirements (4) Report on the Schedule of Federal Financial Assistance (5) Report on Internal Controls over Federal Financial Assistance. Thus, a governmental entity subject to the Single Audit Act may require as many as eight separate reports (nine, if illegal acts are detected). Manoukian, J. (2016)

2.2.5 Report on Compliance with General Requirements

The Compliance Supplement for Single Audits of State and Local Governments,” an interpretive supplement identifies nine “general requirements” that, according to the Supplement, involve significant national policy and that could have a material effect on an entity’s financial statements.

The Single Audit Act: General Requirements

- Political Activity: Prohibits the use of federal funds for partisan politics.
- Davis-Bacon Act: Requires that laborers working on federally financed construction projects be paid a wage not less than the prevailing regional wage Established by the Secretary of Labor.
- Civil Rights: Prohibits violation of anyone’s civil rights in a program funded by the federal government.
- Cash Management: Requires recipients of federal financial assistance to minimize the time elapsed between receipt and disbursement of assistance.
- Relocation Assistance and Real Property Acquisition: Prescribes how real property should be acquired with federal financial assistance and how recipients must help relocate displaced people.
- Federal Financial Reports: Prescribes federal financial reports that must be filed.
- Allowable Cost/Cost Principle: Prescribes the direct and indirect costs allowable for federal reimbursement.
- Drug-Free Workplace: Prescribes that grantees must certify that they provide a drug free workplace.
- Administrative Requirements: Prescribes additional administrative requirements.

Report on the Schedule of Federal Financial Assistance To comply with the Single Audit Act, all federal grant recipients prepare a schedule of federal financial assistance for purposes of additional analysis, not as a required part of the general-purpose financial statements. Among other things, the schedule is required to identify all federal agencies granting funds to the governmental agency, all major programs, expenditures for each major program, and total federal financial assistance.

The auditor's report on the schedule provides an opinion on whether the schedule is fairly presented in all material respects in relation to the general-purpose financial statements, not in relation to the schedule itself. That is, the auditor is responsible not for errors or frauds material to the schedule but rather for errors or frauds material to the financial statements. Report on Internal Controls over Federal Financial Assistance Governmental Entities subject to the Single Audit Act receives not one but two separate reports on internal control: a report on internal controls considered by the auditor when auditing the general-purpose financial statements under government auditing standards. The auditor does not express an opinion on controls over federal financial assistance.

Rather, he or she reports on weaknesses material to federal financial assistance programs.

Note carefully the difference between the two reports: The report on internal control required by government auditing standards reports weaknesses material to the financial statements; the report required by the Single Audit Act reports weaknesses material to federal financial assistance programs. In practice, internal auditors perform a number of different and varied activities, such as appraising and recommending improvements for the: Adequacy and application of financial and operating controls, Extent of compliance with established policies, plans, and procedures, Extent to which assets are accounted for and safeguarded from loss, Prevention of loss and fraud, Reliability of information reported by management, and Performance of employees and management.

The definition and activities describe the scope of operational auditing, the dominant activity of contemporary internal audit practice. Internal auditing is no longer confined to matters of financial reporting it's far broader; an opportunity to lend insight into issues not readily apparent

to management, like projected cost savings on regional distribution centers for nationally marketed consumer products.

2.2.6 The Nature of Operational Auditing

Just as a financial statement audit a special application of the scientific method of inquiry, so too is an operational audit a special application of the scientific method. The objectives of internal and independent auditors differ, but the logic underlying their audit activities is similar. In general, internal operational audits are conducted for any one or more of different purposes: like Verification, Appraisal of controls, Compliance, Protection of assets, Appraisal of performance, and Recommendations for operating improvements. Verification unless accurate and reliable, the data used by management to make decisions is likely to lead to poor decisions. Thus, operational audits can be designed to verify the accuracy and reliability of data used in internal management reports. The focus of verification reviews is not necessarily on responding to the results of inaccurate or unreliable data but, rather, on promoting accuracy and reliability.

Management information systems are intended to provide input for management decisions. Thus, the information system should generate the most relevant, or useful, data for a particular type of decision. As a result, verification reviews often are designed to evaluate the relevance and usefulness of data as well as accuracy and reliability. Appraisal of Control Entities implements internal controls to assure compliance with management's goals and objectives. The controls may take the form of policies, programs, and/or procedures. For example, a company may institute a program of recording and monitoring inventory spoilage in manufacturing plants as an operating control to achieve the organizational objective of reducing costs companywide. Although specific individual controls will vary, they all maintain a common framework.

When appraising controls, the internal auditor's purpose is to determine whether control activities are adequate. That is, are the controls satisfactory in light of the objectives for which they were designed? Appraisal of controls is a particularly significant operational audit activity because internal auditing itself is an organizational control designed to measure and evaluates the effectiveness of other controls.

Compliance Controls are meaningless unless the controls are complied with. Thus, the purpose of an operational audit for compliance is to determine whether specific control policies, programs, or procedures are operating satisfactorily.

The focus of compliance reviews, however, is not necessarily on dealing with the potential results of noncompliance (for example, excess inventory spoilage), but on preventing further instances of noncompliance.

Protection of Assets Closely related to compliance reviews are organizational audits designed to determine whether assets are properly accounted for and safeguarded from losses. Asset protection reviews may be conducted both for liquid assets (for example, cash and marketable securities) and for non-liquid assets (for example, inventory and property, plant, and equipment), although the focus of each may differ, since liquid assets are much more susceptible to frauds. In either case, however, the internal auditor is concerned primarily with testing the effectiveness of those accounting, financial, and operating controls that were designed to account for and safeguard assets.

Appraisal of Performance Employee performance is much more difficult to quantify than accounting or financial control compliance. As a result, interpretations and appraisals of employee performance can be tenuous at best. For example, employee performance is often influenced by variables other than extrinsic economic rewards, such as an employee's job satisfaction and acceptance among peers. Interpreting the effect of these and other variables on an employee's motivation to discharge his or her responsibilities adequately can be difficult, there by suggesting that appraising employee performance also can be particularly difficult.

Nevertheless, as a major organizational control over operational effectiveness, internal auditors are frequently called on to appraise employee performance. Employee performance reviews, however, can represent the one operational audit activity least consistent with the boundaries of an internal auditor's professional expertise.

Recommendations for Operating Improvements Each of an internal auditor's operational audit activities should be designed to generate recommendations for improvements. When a reportable condition, error, fraud, or illegal act is discovered, the effects should be corrected and recommendations made to improve accountability. Although not itself an audit activity, recommending improvements is a significant by product of the internal auditor's professional role. Criticism alone is not enough. Internal auditors also should recommend improvements.

2.2.7 Performing Operational Audits

Although actual operational audits may vary depending on the circumstances, most include several basic characteristics, each of which is related to the scientific method of inquiry.

2.2.8 Management Requests an Operational Audit

Management may request operational audits for any one or more of the purposes discussed in the previous section. More specifically, however, management may request that the six reviews be applied to the organizations: Computer facilities and financial management practices.

2.2.9 Obtaining an Understanding of the Internal Audit Function

An independent auditor obtains an understanding of an entity's internal controls sufficient to plan the audit. Because internal auditors are responsible to monitor the performance of an entity's controls, the auditor should obtain an understanding of the internal audit function sufficient to identify internal audit activities that are relevant to planning the audit.

In obtaining an understanding, the independent auditor should make inquiries of management about the internal audit departments: Organizational status within the entity, Adherence to professional standards, Audit plan, including the nature, timing, and extent of audit work, Access to records and whether there are limitations on the scope of their activities imposed by management, Charter, mission statement, or similar directive from management or the board of directors, The auditor's inquiries should be directed only toward those internal audit activities relevant to a financial statement audit. For example, the internal auditor's role in operational audits about the timeliness of management's decision-making process would not be relevant to the independent auditor, but the internal auditor's role in implementing controls to safeguard assets would be relevant.

2.2.10 Effect of the Internal Auditors' Work on the Audit

The effectiveness of an organization's internal audit function is one among a series of variables considered by an independent auditor when planning and conducting a financial statement audit. Independent auditors consider these other variables to determine their effect on the scope of a financial statement audit. Importantly, the scope of an independent audit can be reduced if an organization's internal audit function is effective.

Thus, the effectiveness of an entity's internal audit function and the scope of an independent audit are inversely related: As the effectiveness of internal auditing increases, the scope of an independent audit can decrease. In practice, independent auditors rely on internal auditors in addressing three issues relevant to a financial statement audit: Understanding internal control, assessing risk, performing substantive procedures. Understanding Internal Control Procedures performed by internal auditors may provide information relevant to the independent auditor's assessment of control risk, since a primary purpose of internal auditing is to monitor an entity's control activities. For example, assuming they are competent and objective, the internal auditor's flowcharts of an entity's accounting system could be used to obtain information about the design of related policies and procedures, thereby reducing the time required by an independent auditor to assess control risk. Sun, M.(2013).

Assessing Risk, The independent auditor assesses risk at both the financial statement level and the account balance level, and the effectiveness of an entity's internal audit function may affect both. For example, at the financial statement level, if the internal auditor's plan includes relevant audit work at various locations throughout the country or around the world, the independent auditor may coordinate his or her work with the internal auditors, thereby reducing the number of locations at which the independent auditor would otherwise need to perform auditing procedures. At the account balance level, the scope of the internal audit function may include tests of controls for selected financial statement assertions, such as completeness for sales and receivables, thereby reducing the scope of the independent auditor's tests. Sun, M.(2013).

Performing Substantive Tests Many internal audit departments also perform substantive tests of details that are the independent auditor's primary means of detecting material misstatements in

financial statement accounts. As a result, some procedures performed by internal auditors may provide the independent auditor with direct evidence about material misstatements.

For example, as part of their normal audit function, internal auditors may confirm accounts receivable and observe the counting of physical inventories, two procedures typically performed by the independent auditor. Assuming the internal audit function is competent and objective, substantive tests performed by internal auditors may provide important evidence to the independent auditor in restricting detection risk for some financial statement assertions.

Evaluating an Internal Auditor's Work although independent auditors often rely on the work of competent and objective internal auditors, the responsibility to report on the financial statements rests solely with the independent auditor. Unlike opinions based partly on the report of another independent auditor responsibility for an audit cannot be shared with the internal auditor. Even though internal auditors may provide information for the independent auditor's judgments about the assessment of control risk and inherent risk about the materiality of misstatements, about the sufficiency of tests performed, those judgments are the independent auditor's responsibility.

Despite reviews of an internal auditor's competence and objectivity, an independent auditor should not accept an internal auditor's work "on blind faith." The internal auditor's work should be evaluated before it is fully relied on. An internal auditor's documented evidence should be examined on a test basis to provide an independent auditor with a basis for judging the adequacy and appropriateness of: The scope of internal audit work, Audit programs, working paper documentation, Conclusions reached, any reports prepared. In addition, the independent auditor should perform tests of some of the internal auditor's work. For example, if an internal auditor examined evidence in support of 25 additions to property, plant, and equipment, an independent auditor may examine evidence in support of a small number of the same additions, comparing the results with those reached by the internal auditor.

2.3 Empirical Review

Different researches were conducted on the existing practices of internal auditing in the Ethiopian context. The focus of those papers varies in terms of sectors, industries and institutions. Highlights of some previous research papers on similar subject areas including the

research conclusions and recommendations are discussed as part of the assessment of previous empirical evidences and presented as follow:

Yisehak Tigabu (2013) in the research entitled “Internal audit practices in the Ethiopian Financial sector, as compared to the International Professional Practicing Framework (IPPF) pronounced by the IIA”, to compare the existing internal audit practices in the Ethiopian financial sector by taking the framework as a benchmark. The financial sector in Ethiopia comprises of banks, insurance companies and microfinance institutions. A mix of sample was taken from all and the research deployed three data collection methods: questionnaires, interview and document review. The results of the research revealed that the current practices of internal audit activities (IAAs) in the Ethiopian financial sector did not comply with the IPPF guidelines that promulgated by the IIA. Furthermore, there were no quality assurance and improvement programs in place by those financial institutions that can make their internal audit practices head towards the level of being IPPF compliant. The research recommended that the current IAAs in the Ethiopian financial sector should comply with IPPF to make them value adding in the areas of risk management, internal control and governance. It was also recommended that those institutions need to introduce quality assurance and improvement programs, both internal/external and/or periodic/ongoing, to periodically review and improve the quality of their IAAs.

HamduKedir (2014) , Arega Seyom and Addisu Gameda in their article entitled “Internal auditing standards and its practice the case of East ArsiZone, Ethiopia” presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking competency, compliance, Independency, Risk management and quality assurance as major parameters of the IIA standard for comparison. The result of the study showed that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Regarding quality assurance program, none of the respective public enterprises’ audit

departments have quality assurance programs. Thus, CAE should be able to develop quality assurance programs.

Bethlehem Fekadu (2009) conducted research on “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” for the purpose of investigating challenging factors that have influenced the Ethiopian higher governmental institutions’ internal audit practices. The study was done on four universities, Adama, Hawasa, Haramaya and Addis Ababa Universities. Seven internal auditors who were selected using convenience sampling techniques were used as data source and open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data. The findings of the study showed that lack of proper management commitment, Lack of developmental programs for internal Auditors and other organizational factors were critical factors influencing effectiveness of IAF in the respective Universities. To alleviate those problems, it was recommended that management and the audit division of the respective universities has to work jointly to improve the IAF of their respective universities as per requirements of international standards.

Samuel Mulugeta (2008) conducted a research on “Internal Audit: Reporting Relationship in Ethiopian Public Enterprises” With objectives of analyzing the reporting line of internal audit and investigate its relationship with internal audit scope, independency, good governance and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope up with the problems identified in the research so as to promote the good image of internal audit profession.

The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC (i.e. at Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprises internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal

control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified.

Mohammed Seid (2011) conducted a research on “Internal audit and risk assessment in Ethiopian public enterprises” With a general objective of seeing internal audit functions’ contribution to risk assessment. This research paper examined internal auditing and risk assessment in Ethiopian public enterprise context using 20 purposefully selected public enterprises. Mixed research approach was used and the data were collected by using questionnaires and document review. Results of the Survey showed that all public enterprises have internal audit function that performs; operational audit which requires most resources and compliance audit as a second important audit type; the amount of audit resources devoted to risk assessment reveals the relative relevance of each kind of activity. Results of the research showed that many Ethiopian public enterprises had introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process. Hence, the research recommended that internal audit functions that did not incorporate control risk self-assessment will be better off by incorporating it as part of the scope of operation of their respective IAAs for effective risk assessment.

Tesema Geda (2018) conducted that a research on “examined the role of internal audit practice in promoting good governance in public institution of Ethiopia a case of Jimma zone”. With the objective of seeing the role of internal audit practice in promoting good governance in case of jimma zone, the study have been not empirically examined using inferential statistics in the Jimma zone specifically and rarely examined in Ethiopia .Generally, Primary data was obtained through the administration of structured questionnaire to purposively selected respondents comprising internal auditors and managers’ from 14 Weredas and 2 town administrations of finance and economic development offices that are expected to represent all other sectors. A total of 132 respondent participated in the study. Data obtained was analyzed using correlation analysis and multiple regression technique. According to the regression output Formal mandate and Standards for the Professional Practice, Competent staffs, Organizational independences and objectivity were contributed for the promotion of good governance in the public sectors significantly and positively. The management support of internal audit roles was

positively related with the good governance but its contribution for the good governance was statistically not significant. However, the risk management and control role of internal audit was negatively related with the good governance and its contribution for the good governance was not statistically significant. All of these five independent variables are making 38.6% of the contributions for the promotion of good governance in the public sector offices. The internal auditors of Jimma zone were recommended to act in line with the purpose, authority and responsibility of internal audit defined formally in their charter.

2.4 Summaries and Research Gap

Previously very few researches have been done regarding internal auditing related topics at various organizations in Ethiopia. By the definition of IIA, the internal audit is expressed as a profession that is moving from its traditional view (approach) to the new risk-based view (approach). Since internal auditing in today is different from internal auditing yesterday and before, it is under a continuous review and progress (Reding et, 2013).

Therefore, as a global guidance-setting body, the IPPF organizes authoritative guidance that promulgated by the IIA. The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and recommended guidance. Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. These mandatory guidance elements are categorized into two namely attribute standards and performance standards. The standards together with the code of ethics encompass all mandatory elements of the IPPF.

As it is a mandatory guidance, no previous research was made in A.A.H.D.C by taking into account the mandatory guidance elements the revised International Standards for the Professional Practice of Internal Auditing (Standards) that was released by the International Internal Audit Standards Board (IIASB) effective January 2017 and the code of ethics. It could be seen from the above discussion that majority of the previous studies were concentrated on the effectiveness of internal audit in various organizations in Ethiopia. Very few studies were conducted on the area of assessing the internal audit practices in different sectors and industries.

As well, since to-date, no research has been done by paying a special attention to assess the practices of internal audit in A.A.H.D.C by taking the mandatory guidance elements: the revised international auditing standards and the code of ethics as a benchmark. So the forgoing research gaps were identified and derives the attention the researcher to do well his time on the stated gaps.

CHAPTER THREE

3. Research Design and Methodology

This chapter outlines the approaches used in gathering information to obtain the relevant data for processing in order to achieve the objective of the study, how it will be designed and presented. In addition, it illustrates the area of examination with regards to those discussed.

The research methodology describes the means used to collect data to address central research questions enumerated. The following part outlines the research design, the research method, the population under study, the sampling procedure, and the method that was used to collect data.

The reliability and validity of the research instrument are addressed. Ethical considerations pertaining to the research are also discussed.

3.1 Research Design and Approach

Research Design is a blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the method and procedure for collecting and analyzing the needed information (Adams, 2007). Descriptive research is aimed simply at describing phenomena and is not particularly concerned with understanding why behavior is the way it is (Adams, 2007). Besides, descriptive research assumes that the researcher has the design for this study is descriptive researches that were used to assess the role of internal audit practice in promoting operational compliance.

3.1.1 Geographical Description and Population

Addis Ababa Housing Development Corporation head office is located kirkos sub city around bambis supermarket on its own building and project offices are located each sub city around Addis Ababa border area and also the organization has the total of 3210 permanent employees from this total employee 1850 employees are engineering professions and the remaining 1360 are social science and business professions.

3.1.2 Sample Design

All of eighteen project offices and head office was select by using census sampling method. Thus auditors, senior accountants, finance managers, and top-level managements were representing

the overall internal audit issue and more satisfy the representativeness of the sample from all levels regarding the existing internal audit practices. Since the scope and exposure of internal auditing practice is at home office.

Census sampling normally involve a more deliberate effort to secure a sample that conforms to some predetermined criteria. (Fetter & McMillan, 1980) The researcher uses a non-probability sampling design in the form of a purposive sampling method was adopted and considered to be appropriate to gather the data.

3.2.3 Sample Size Determination

Determining sample size varies for various types of research designs and there are several approaches in practice. A general rule, one can say that the sample must be of an optimum size i.e., it should neither be excessively large nor too small (Kothari, 2004).

The target population number in A.A.H.D.C consists of (18) Finance managers, (14) Internal auditors, (18) senior accountants. As mentioned on the sampling method topic they are selected purposively, in addition to this the corporation has only for grounded employees on these positions.

For this study the researcher used the entire target population of Finance Manager, Internal Auditor, and senior accountants in A.A.H.D.C. (Kothari, 2004) explained that, it needs to be emphasized that when the universe is a small one, it is no use resorting to a sample survey. When all items are covered, no element of chance is left and highest accuracy is obtained.

Patrick, B. (2003) the researcher was take sampling technique by determining the sample proportion success and not success based on the experience from previous survey research response rate. Patrick, B. (2003) referring the return or success rate 50% is 'adequate'; 60% response rate is 'good' and 70% rate or higher is 'very good'. The researcher sample size was determined at 95% confidence level.

3.3 Type of Data and Method of Data Collection

3.3.1 Type and Source of Data

Both primary and secondary data sources were used in this research method, Regarding primary data collection, questionnaire and open discussion on from some management bodies, while review of literatures was made to collect secondary data. The primary sources include data gathered by distributing questionnaires and personal discussions conducts with internal auditors, senior accountants and finance managers in Housing Development Corporation. Unstructured discussions for finance managers and internal audit managers at home office level were employed as a tool for collecting data and the questionnaire involves both open and close-finished inquiries.

The first section of the questionnaire collected demographic data of the respondents, while the next sections answered the three objectives of the study, that is, current trend of internal audit, current status of operational compliance, and the role of internal audit

3.3.2 Data Collection and administration procedures

This study was utilizing a questionnaire to gather essential information. Questionnaires are important for studies since they gather data that is not straightforwardly discernible as they ask about sentiments, inspirations, mentalities, achievements and also encounters of people (Mellenbergh, 2008).

The study was used Likert scale to generate the questions in the questionnaire. The questionnaire was structured questions. The close-ended questions give more organized reactions to encourage substantial suggestions. The questionnaire addressed the three research objectives therefore it is sub-divided into two sections.

The researcher was engage three research assistance to assist in conveyance of questionnaires to the focus on respondents. The researcher and research assistants administered the questionnaires to the respondents face to face. The questionnaires will be distributed through drop and pick later method. However, where the respondents have time to fill the questionnaire as the research assistant was accord any assistance and clarification that he or she wants.

3.3.3 Reliability and Validity of the Instrument

The most important issue in the research is to consider the validity and reliability of the instrument used to collect the data. Validity refers to the degree to which the data collection method accurately measures what it was intended to measure or to extent to which research findings are about what they are claimed to be about, reliability refers to which your data collection techniques or analysis procedures were yield consistent findings (Saunders et al., 2007).in other words if a study has validity collects the appropriate data for the study. And a study has reliability if the same questions asked of a sample procedure the same findings.

Dunn (2001) also defines reliability as a measure's stability or consistency across time. The data reliability test is measured by using Cronbach's Alpha. Cronbach's Alpha is also calculated as part of the reliability test to assess how valid the results is and should produce similar generalized results if the sample size were increase (Field, 2006).

The Alpha value is ranges from a maximum of 1.0 for a perfect score to minimum of zero, good measure of the alpha should be 0.70 or higher (Neuman, 2007). According to William and Barry (2010) scales exhibiting a coefficient alpha between 0.80 and 0.96 are considered to have very good reliability, between 0.70 and 0.80 are considered to have good reliability, and alpha value between 0.60 and 0.70 indicates fair reliability and when the coefficient alpha is below 0.60, the scale has poor reliability.

In terms of reliability, if the alpha value is less than 0.6, it is considered not acceptable, while the alpha value is over 0.6, the result (questionnaire) is acceptable (Hair et al, 2003). Because of the advantages using Cronbach's alpha, the researcher will be used Cronbach's alpha to test the reliability of the questionnaires.

3.3.4 Ethical Consideration

Each Discipline was having its own ethical guidelines regarding the treatment of human research participants (Vander stop and Johnston, 2009). Research ethics deals with how to treat those who participate in the studies and how to handle the data after collection. In order to secure the consent to the study, the researcher was clearly communicating the purpose and the aim of the study and all information obtained from the respondents are treated with confidentiality without disclosure of the respondent's identity. Moreover, no information was modified or changed

hence the information was presented as collected and all the literatures that collected for the purpose of this study are acknowledged in the reference list.

3.4 Data Analysis and Mode of Presentation

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). The researcher analyzed the data collected via questionnaires with qualitative research which is fundamentally interpretative i.e. the researcher interpreted the qualitative data. Thus, the analysis of interpretation of qualitative data combines to seek convergence among the results.

To analyze the collected data, since it is the most common user friendly package by social scientists in recent years (Dawson, 2002; Singh, 2007), the researcher employed the Statistical Package for Social Sciences (SPSS) version 23 software.

To gather information through questionnaires, the Likert scale model (5-rating scale) was used by the researcher. After the data were entered into the SPSS software, to assess the reliability and consistency of the instrument, the Cronbach's Alpha (α) analysis was conducted.

The analyzed data was describe and summarize by using the descriptive statistics methods particularly by measure of central tendency (mean) values, frequency, percentage, measure of central dispersion (standard deviation). Then, the results of the study were presented by using various tables. The analyzed data was described and summarized by using the descriptive statistics methods particularly by measure of central tendency, frequency, percentage, standard deviation. Then, the results of the study have been presented by using various tables.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter consists of two major sections. The first section highlights regarding the data that was gathered for the analysis in the chapter. The second section presents the reliability analysis test for the entire data via using the SPSS and its results. The final section, section three, views an exhaustive discussion and analysis on data that was collected through using 39 questionnaires.

4.1. General information about Collected Data

Basically, the primary source of data gathering instrument, questionnaires distribution and collection, was considered in the study. The three-research assistance were assisted in conveyance and self-administered questionnaires were distributed to the selected organization and addressed to all internal audit staffs, finance managers and senior accountants.

In order to satisfy the adequacy and representativeness of the sample, all internal audit staffs of the organization, finance managers, senior accountants who were assigned at home office level, and all project offices 50 in number, were assumed for filling the developed questionnaire. Accordingly, 50 questionnaires that were duly filled and collected were used for the analysis ($50/50=100\%$).

4.2 Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert type scale, then reliability analysis is essential in reflecting the overall reliability of constructs, which it is measuring. To carry out the reliability analysis, Cronbach's Alpha measure of scale reliability and a value greater than 0.70 is very acceptable.

According to the under listed table, the reliability analysis result of all variables revealed 0.907 and hereby the responses generated for all of the variables' used in this research were reliable enough for data analysis. However, when looking below table regarding to each component parts

were **0.772, 0.832, 0.808** respectively, even so for each components Cronbach's Alpha measure of scale reliability is greater than 0.70 and is very acceptable.

Table 4.1 Reliability Statistics For each and grand components

Variables of Interest	Cronbach's Alpha	N of Items
Regarding to the current trend of internal audit activity	.772	9
Regarding to the extent of adherence to operational compliance	.832	9
Regarding to the roles of internal audit in promoting operational compliance	.808	21
Grand	.907	39

Source: Questionnaire results (2021)

4.3. Profile of respondent

The following section presents respondents profile in terms of gender, age, education, current position, and work experience in this organization in years; and finally, about internal audit staffing of their internal audit department/unit.

4.3.1 Summary of Respondents' Profile

Table 4.2 summary of respondents' profile

Variables	Categories	Frequency	Percentage	Remark
Gender	Male	30	60.0	
	Female	20	40.0	
	Total	50	100.0	
Age Profile	Less than 30 years	6	12.0	
	30-40 years	24	48.0	
	40-50 years	11	22.0	
	50-60 years	6	12.0	
	Above 60 years	3	6.0	
	Total	50	100.0	
Educational Profile	Diploma	1	2.0	
	BSC/BA	44	88.0	
	MSC/MA/MBA	5	10.0	
	Total	50	100.0	
Year of Experience in this organization	Less than 3 years	9	18.0	
	3-5 years	21	42.0	
	6-10 years	14	28.0	
	More than 10 years	6	12.0	

	Total	50	100.0
Current Position in this Organization	Finance Manager	18	36.0
	Audit Manager	2	4.0
	Senior Accountant	18	36.0
	Senior Internal Auditor	2	4.0
	Internal Auditor	10	20.0
	Total	50	100.0
Respondents' Opinion on their internal Audit Department Staffing	Adequately Staffed	14	28.0
	Moderately Staffed	9	18.0
	Poorly Staffed	27	54.0
	Total	50	100.0

Source: - Questionnaire result (2021)

a) Gender Profile

While reviewing the gender mix of the respondents it could be summarized that 30 respondents having 60% were male and the remaining 20 female respondents shared 40% of the ratio. The analysis results reflected that respondents gender mix in this organization were male and female and out of it, the lion share, 60%, was represented by male respondents.

b) Age Profile.

Age profile of the respondents was summarized into five groups. The lion share was taken by 24 respondents that possessed 48% of the total having 30-40 years, followed by 11 respondents that held 22% and having age ranges from 40-50 years. The remaining 6 respondents in total took 12% of the total having less than 30 years and 50-60 years are having the same weight with less than 30 years; and 3 respondents having years above 60 years possessed 6% respectively.

Majority of the respondent employees' age ranges fall in between 30-50 years 35 respondents having 70% share. This reflected that greater part of the internal audit activity and accounting division was under taken by more productive and well matured aged employees. The next share was taken by 6 (12%) employees having below 30 years ages (Younger) and followed by 6 respondents having age ranges in between 50-60 years (highly matured) Only three respondents were exercising in the profession beyond 60 years (elder) in this company, therefore most of the employees are energetic for doing audit practice properly if there is stable environment.

c) Educational Level Profile

It could be understood from the foregoing table that the respondents' educational level was categorized into three: majority respondents that bearing Degree were 44 in number and possessed 88% and 5 respondents that bearing Masters were shared 10% of the total, and also the remaining diploma 2 in number and possessed 2% of the total.

It could summarize the educational profile of the respondent of the organization into three: the significant share was possessed by Degree holders and the remaining share is followed by Master related document holders lastly the minority share of education is diploma holders. Accordingly, the existing merge of educational level of respondent employees in this organization was good and could enhance the auditors to undertake their day-to-day internal audit activities well.

d) Year of Experience in this Organization

21 respondents having 3-5 years of experience in this organization leading by 42% and followed by 14 respondents having 6-10 years' experience that possessed 28%; the remaining 9 respondents have less than 3 years' experience in this company and shared 18%: 6 respondents alone possessed 12% by having more than 10 years experiences in this company respectively.

The lion share of the respondent Employees' year of service in H.D.C was above three years. Therefore, the results exhibited that majority of internal auditors and accounting division

employees in the case company have good professional experience and better understanding about their working environment.

e)The Current Position of Respondents in this Organization

A current position of the respondents in their organizations was summarized into five parts: Audit managers, senior internal auditors, internal auditors, finance managers and senior accountants. 18 finance managers and 18 senior accountants shared the leading percentage 36% each and internal auditors that were 10 in number shared the next higher percentage, 20%. Only 2 respondents that possessed 4% share were audit managers and senior internal auditors respectively. Majority of respondents 36 accounting division, which is finance manager and senior accountants possessing 72%. according to the analysis results, sided to audit managers, senior internal auditors and internal audit officers out of it the greater part was possessed by internal auditors 20% senior internal auditors, 4% and audit managers 4% and also it indicates that audit division is established only at home office level.

f)Respondents' Opinion on their Internal Audit Staffing

27 respondents that attained 54% of the total percentage responded their internal audit department/unit staffing was poorly staffed. 14 respondents that possessed 28% answered that their audit department/unit adequately staffed and the remaining 9, by taking 18% share percentage, responded that their audit department/unit had staffed moderately.

With the exception of fourteen respondents' that possessed 28% share of the total, and believed that their internal audit staff strength was adequate; the remaining respondents' opinions regarding their internal audit staff strength was revealed as inadequate and poor and also Responded by 36 respondents' that possessed the total share of 72% percentage. This result showed that the company's audit department is not obtained concentration.

a. Current trend of internal audit practice

Table 4.3 Descriptive Statistics regarding to current trend of internal audit practice

Variables		SD	D	UD	A	SA	Me an	Std. Deviation
QP2.1.1 All risks are properly identified and included in the audit process.	f	5	19	17	8	1	2.62	.945
	%	10.0	38.0	34.0	16.0	2.0		
QP2.1.2 The risk identification process is undertaken at a sufficiently high level within the organization.	f	0	5	20	12	13	2.66	.982
	%	0	10.0	40.0	24.0	26.0		
QP2.1.3 Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.	f	0	3	18	25	4	3.60	.728
	%	0	6.0	36.0	50.0	8.0		
QP2.1.4 The risk assessment activity have implemented in all the functions and processes of the organization.	f	5	21	9	15	0	2.68	1.019
	%	10.0	42.0	18.0	30.0	0		
QP2.1.5 Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services	f	0	11	20	15	4	3.24	.894
	%	0	22.0	40.0	30.0	8.0		
QP2.1.6 Internal auditors in your organization address qualitative issues in their work (for example, communication, management information, ethical issues, and equal opportunities).	f	3	10	19	13	5	3.14	1.050
	%	6.0	20.0	38.0	26.0	10.0		
QP2.1.7 Testing proper recording of assets, expenditure and the reliability of financial information	f	4	11	7	20	8	3.34	1.222
	%	8.0	22.0	14.0	40.0	16.0		
QP2.1.8 Internal auditors possess the	f	1	10	12	21	6	3.42	1.012

knowledge, skills, and other competencies needed to perform their individual responsibilities.	%	2.0	20.0	24.0	42.0	12.0		
QP2.1.9 Examining and assessing organization policies, procedures, manuals and recommending best practices.	f	5	8	21	14	2	3.00	1.010
	%	10.0	16.0	42.0	28.0	4.0		

Source: Questionnaire results (2021)

QP2.1.1. It could be understood from the respondents' results that all risks are not properly identified and included in the audit process in their organization by the mean value 2.62. The perception of the responding employees regarding the standard was taken as considerable and represented as by the standard deviation value below 1. It indicates that the perception of the respondents closed each another, and although there were 9 respondents which means 18% were agreed by all risks are properly identified and included in the audit process.

QP2.1.2. The respondents' results revealed that the risk identification process is not undertaken at a sufficiently high level within the organization; It could be understood half or 25 (50 %) respondents were agreed while the remaining others are believed as poor and exhibited by the average mean value below 3. The respondents' perception was presented by the standard deviation value slightly below 1 and it could be considered as there was the same perception among each other.

QP2.1.3. Majority of employees that participated in responding the questionnaire regarding the internal auditors an impartial, unbiased attitude and avoid any conflict of interest, had agreed 58% or 29 respondents were believed and demonstrated its well conformance within their company by the mean and the standard deviation values: 3.6 and slightly below 1 respectively.

QP2.1.4. The respondents' result indicates that the risk assessment activity has not implemented in all the functions and processes of the organization; 15 or 30% of total respondents were agreed but 70% or 35 respondents are disagreed and believed as weak and exhibited by the average mean value below 3. The respondents' perception was presented by the standard deviation value

slightly above 1 and it could be considered as there was the different perception among each other.

QP2.1.5. It could be understood from the respondents' results that internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services is well in their organization by the mean value 3.24. But there were only 19(38%) of the total respondent was agreed. The perception of the responding employees regarding the standard was taken as considerable and represented as by the standard deviation value below 1. It indicates that the perception of the respondents closed each another.

The following additional four questions QP2.1.6-QP2.1.9 were used as a benchmark to assess the current trend of internal audit practice conformance within the organizations and the results were analyzed as follow.

QP2.1.6. Internal auditors in their organization were address qualitative issues in their work like for example, communication, management information, ethical issues, and equal opportunities as indicated 18 (36%) of the total respondent's agreement level, but 32(64%) of the total respondents were below average agreement level and the mean value revealed above 3 as shown the above table.

QP2.1.7. The analyzed data were shows that 28(56%) of the total respondent's agreement level or the mean value above 3 revealed that well Testing proper recording of assets, expenditure and the reliability of financial information.

QP2.1.8. and also 27(54%) of the total respondent were agreed on the Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities, it also ensured by the average mean value of above 3. The result shows that Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities

QP2.1.9. Internal audit was examining and assessing organization policies, procedures, manuals, and recommending best practices. The respondents' perception was presented by the standard deviation value slightly above 1 and it could be considered as there was the different perception among each other. It indicates that in this company the Examining and assessing organization policies, procedures, manuals and recommending best practices.

The analysis results revealed regarding the current trend of internal audit practice that their conformance level within the selected company was considered as good and it also replied by the organizations' internal auditors and accounting division employees. However, defining of the internal audit activities All risks are not properly identified and included in the audit process and also the risk identification process is not undertaken at a sufficiently high level within the organization beside this the risk assessment activity have not implemented in all the functions and processes of the organization.

b. Adherence to operational compliance

Table 4.4 Descriptive Statistics regarding to the extent of adherence to operational compliance

Variables		SD	D	UD	A	SA	Mean	Std. Deviation
QP2.2.1 The organization has been able to identify and validate customers' needs and expectations.	f	5	15	17	13	0	2.76	.960
	%	10.0	30.0	34.0	26.0	0		
QP2.2.2 Compliance with laws, regulations, & contracts has Been witnessed in our organization as a result of internal audit.	f	4	15	16	9	6	2.96	1.142
	%	8.0	30.0	32.0	18.0	12.0		
QP2.2.3 The audit plan is prepared according to: Risk-based approach	f	0	21	15	12	2	2.90	.909
	%	0	42.0	30.0	24.0	4.0		

QP2.2.4 Evaluation of projects and programs accomplishments	f	5	18	18	9	0	2.62	.901
	%	10.0	36.0	36.0	18.0	0		
QP2.2.5 The operational internal audit function is cost effective to the organization	f	1	17	14	17	1	3.00	.926
	%	2.0	34.0	28.0	34.0	2.0		
QP2.2.6 The operational internal audit function is recognized as important to the organization in that it adds value to the organization.	f	2	10	14	9	15	3.50	1.233
	%	4.0	20.0	28.0	18.0	30.0		
QP2.2.7 The operational internal audit function is involved in the design of the financial internal controls	f	3	9	8	28	2	3.34	1.022
	%	6.0	18.0	16.0	56.0	4.0		
QP2.2.8 Examining use of organization resources (economy).	f	3	22	8	16	1	2.80	1.030
	%	6.0	44.0	16.0	32.0	2.0		
QP2.2.9 Examining organizational productivity (efficiency)	f	4	19	19	8	0	2.62	.855
	%	8.0	38.0	38.0	16.0	0		

Source: Questionnaire results (2021)

Nine questions (QP2.2.1-QP2.2.9) were distributed to respondents to know the extent of adherence to operational compliance. The first four questions are revealed that there was poor adherence in their organization on QP2.2.1 17(34%) of the total is undefined 15(30%) of respondents disagreed, 5(10%) of the respondents are strongly disagreed and only the remaining 13(26%) of the total respondents are agreed, the others three are the same like the above explained question even approximately and by the average mean value below 3. The respondents' perception was presented by the standard deviation value slightly below 1 and it could be considered as there was the same perception among each other. While in QP2.2.2 the standard deviation value slightly above 1. It indicates that there was a different perception among each other.

Only QP2.2.5 had a mean response was 3.00. and 18(32%) of the total respondents are agreed and the remaining are under average agreement level but accordingly the mean value This implies that the operational internal audit function is cost effective to the organization. It has a standard deviation of less than 1.00. This indicates that the respondents' perceptions are closed each another.

The above four questions are showed that the operational internal audit function is recognized as important to the organization in that it adds value to the organization and The operational internal audit function is involved in the design of the financial internal controls are well .Both questions had mean responses greater than 3.00 and standard deviations of less than 1.00.but it indicates that there were a different perception among each other.

While the remaining two questions are QP2.2.8-QP2.2.9 were distributed to respondents to get information about assessing the use of organization resources economy and efficiency.by 17(32%) and 8(16%) agreed respectively while the remaining high percent was under average agreement level. Both questions had mean responses less than 3.00 and QP2.2.9 standard deviations of less than 1.00. This indicates that the perceptions of respondents are close to one another but not QP2.2.8. The result shows that in the view of respondents, there is low examining of organizational productivity resources, economy and efficiency.

The above analysis results exhibited regarding the extent of adherence to operational compliance that their conformance level within their company was considered as not well by the following issues :The organization has not been able to identify and validate customers' needs and expectations, Compliance with laws, regulations, & contracts has not Been witnessed in this organization as a result of internal audit, The audit plan is not prepared according to: Risk-based approach, there had not Evaluation of projects and programs accomplishments, and also there was not Examining the use of organization resources (economy),and organizational productivity (efficiency. and it also replied by the organizations' internal auditors and accounting division senior employees.

However, the conformance level of operational internal audit function is cost effective to the organization, the operational internal audit function is recognized as important to the organization in that it adds value to the organization, and even the operational internal audit function is involved in the design of the financial internal controls had good agreement level between the respondents.

c. The role of internal audit practice in promoting operational compliance

Table 4.5 Descriptive Statistics regarding to the role of internal audit practice in promoting operational compliance

Variables		SD	D	UD	A	SA	Mean	Std. Deviation
QP2.3.1 The Organization has procedures to deal with ethical problems	F	0	23	10	16	1	2.90	.931
	%	0	46.0	20.0	32.0	2.0		
QP2.3.2 All internal control procedures are always followed.	F	2	7	19	22	0	3.22	.840
	%	4.0	14.0	38.0	44.0	0		
QP2.3.3 The operational internal auditor has assisted the organization to reduce the incident of loss through fraud.	F	2	10	16	15	7	3.30	1.074
	%	4.0	20.0	32.0	30.0	14.0		
QP2.3.4 The budget of each project is sufficient for the completion of the respectively settled responsibilities	F	1	8	14	13	14	3.62	1.123
	%	2.0	16.0	28.0	26.0	28.0		
QP2.3.5 The operational internal auditor is sufficiently senior.	F	3	18	22	7	0	2.66	.798
	%	6.0	36.0	44.0	14.0	0		
QP2.3.6 Operational internal audit is independent of day to day management operations.	F	2	7	16	22	3	3.34	.939
	%	4.0	14.0	32.0	44.0	6.0		
QP2.3.7 All the internal controls are documented in procedures manuals.	F	2	13	11	21	3	3.20	1.030
	%	4.0	26.0	22.0	42.0	6.0		
QP2.3.8 The external assessment is conducted at least once every five years by	F	9	10	13	15	3	2.86	1.212

a qualified, independent assessor or assessment team from outside the organization.								
	%	18.0	20.0	26.0	30.0	6.0		
QP2.3.9 Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement.	F	16	16	9	7	2	2.26	1.175
	%	32.0	32.0	18.0	14.0	4.0		
QP2.3.10 There is a proper quality control procedure in place within the operational internal audit function.	F	4	27	13	4	2	2.46	.908
	%	8.0	54.0	26.0	8.0	4.0		
QP2.3.11 Well defined policies and procedures for identifying and updating compliance obligations, including escalation and/or reporting arrangements for breaches	F	9	21	6	14	0	2.50	1.093
	%	18.0	42.0	12.0	28.0	0		
QP2.3.12 Are You familiarized with the objectives, aims and plans of the Internal Audit Department?	F	0	9	11	22	8	3.50	.886
	%	0	18.0	22.0	52.0	8.0		
P2.3.13 Establishment and maintenance of a comprehensive compliance register to record relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements	F	0	20	19	6	5	2.92	.966
	%	0	40.0	38.0	12.0	10.0		
QP2.3.14 The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management	F	1	10	19	18	2	3.20	.881
	%	2.0	20.0	38.0	36.0	4.0		

processes.								
QP2.3.15 The organization complies with applicable laws and regulations.	F	0	20	10	18	2	3.04	.968
	%	0	40.0	20.0	36.0	4.0		
QP2.3.16 The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements.	F	3	16	12	15	4	3.02	1.097
	%	6.0	32.0	24.0	30.0	8.0		
QP2.3.17 The quality assurance and improvement program include both internal and external assessments.	F	5	18	16	9	2	2.70	1.015
	%	10.0	36.0	32.0	18.0	4.0		
QP2.3.18 Promotes organizational improvement.	F	3	16	15	15	1	2.90	.974
	%	6.0	32.0	30.0	30.0	2.0		
QP2.3.19 Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.	F	0	16	21	11	2	2.98	.845
	%	0	32.0	42.0	22.0	4.0		
QP2.3.20 Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.	F	3	4	25	14	4	3.24	.938
	%	6.0	8.0	50.0	28.0	8.0		
QP2.3.21 Communications are accurate, objective, clear, concise, constructive, complete and timely.	F	7	5	19	16	3	3.06	1.114
	%	14.0	10.0	38.0	32.0	3.0		

Source: Questionnaire results by SPSS v 23. (2021)

Questions QP2.3.1 up to QP2.3.21 distributed to about the role of internal audit practice in promoting operational. From the above seven questions the mean responses of all questions were above 3.00 except QP2.3.1 and QP2.3.5. This indicates that there is a general agreement between respondents about the above questionnaires.

QP2.3.3, 4, 7 have standard deviations more than 1.00. It indicates that there is difference in perceptions between respondents. And 22(34%), 27(54%), 24(48%) was agreed respectively but the remaining was above average agreement level. While QP2.3.1, 2, 5 and 6 have a standard deviation less than 1.00 It indicates that the respondent's response was closed each other. Even so 17(34%),22(44%), and 7(14%) respectively was agreed and the remaining high respondents and percentages were under average agreement level.

All the above questions had a mean response of less than 3.00 except QP2.3.12 and 14. Standard deviations of the QP2.3.8, 9 and 11 three questions were more than 1.00, which were The external assessment by a qualified, independent assessor or assessment team from outside the organizations, Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and Well defined policies and procedures for identifying and updating compliance obligations, including escalations are not well in their organization, even so This indicates that the respondents perception were far away from one other. The remaining four questions which were had standard deviation of less than 1.00. On the other hand, standard deviation of less than 1.00 showed that respondent's perceptions were closed to each other.

The mean response of the above four questions under the organization complies with applicable laws and regulations, internal audit activities assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements, Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives, Communication accuracy, objective, clear, concise, constructive, complete and timely issues had more than 3.00 and well, the remaining three

questions had the mean response of less than 3.00 and QP2.3.16, 17, and 21 had the standard deviation of more than 1.00, or only 19(38%), 11(22%), and 19(35%) respondents were agreed respectively. It indicates that there was a different perception between respondents. However, the remaining four questions had standard deviation of less than 1.00. It indicates that respondents are agreed with the reflected issues.

The above analysis results exhibited regarding the role of internal audit practice in promoting operational compliance, that the respondents conformance level within their organization was considered as not well by the following internal audit activities : The Organization has not procedures to deal with ethical problems, The operational internal auditor is not sufficiently senior, The external assessment is not conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization., beyond this there were not done Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement, There were not a proper quality control procedure in place within the operational internal audit function and also there was not prepared Well defined policies and procedures for identifying and updating compliance obligations, including reporting arrangements for breaches, according to the respondents conformance level. Establishment and maintenance of a comprehensive compliance register to record relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements were not properly established.

In addition to this the quality assurance and improvement program includes both internal and external assessments were not made mutually with external assessors. And there were not Promotes organizational improvement still now, Objectives were not established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures. And it also replied by the organizations' internal auditors and accounting division senior employees and they had good agreement level between the respondents according to standard deviation.

On the other hand the remaining results exhibited regarding the role of internal audit practice in promoting operational compliance, that the respondent's conformance level within their

organization was considered as good by the following internal audit activities: The operational internal auditor has assisted the organization to reduce the incident of loss through fraud, The budget of each project was sufficient for the completion of the respectively settled responsibilities, Operational internal audit is independent of day to day management operations, All the internal controls are documented in procedures manuals, all finance and audit employees are familiarized with the objectives, aims and plans of the Internal Audit Department, The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes, and internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency by promoting continuous improvements, Communications are accurate, objective, clear, concise, constructive, complete and timely, Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. The mean response of t thus questions under the role of internal audit practice in promoting operational compliance were more than 3.00 and the standard deviation of five questions were more than 1.00, which indicates that the respondents perception was far away to one other. The remaining question had standard deviation of less than 1.00, which reveals that the respondent's perception was close to one other. daily operations are carried out effectively, resources are used efficiently, financial reporting is reliable, and, the organization complies with applicable laws and regulations.

In the research revealed that the "Internal Control Functions". In the case of Addis Ababa Housing Development Corporation, they are made up of Compliance, Risk Management, Information Security, and Internal Audit respectively. Their roles and responsibilities are outlined further below. Common features shared by all Internal Control Functions include: Independence, Accountability and Compliance Function.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents summary of the findings, conclusions and recommendations that were drawn based on the results of the responses from questionnaires and documents review. It has four parts; the first part presents summary of the findings and then followed by the conclusions that made for the study as a second part. The last part of the chapter, part four, highlights constructive recommendations that were supposed to curve the findings that detected in relation to the role of internal audit practice in promoting operational compliance by using mandatory guidance elements that were set by the international audit standards and Ethiopian audit manuals generally and housing development corporations manuals particularly, and followed by possible future research areas that related to the topic under investigation.

5.1 Summary

The findings of the research could be summarized into four parts and their detail is discussed as follow:

5.1.1 Findings that detected from respondents' profile

- The results clearly revealed that almost all internal auditors in Housing Development Corporation have been conducting their IAAs through experiences and without acquiring adequate trainings.
- With the exception of few respondents that responded about the adequacy of their audit staffing, majority of the respondents from the sample employees replied that their audit departments is poorly staffed.

5.1.2 Findings that related to the current trend of internal audit practice

- The level of conformance with standards that related to internal audit risk assessment activity have not implemented in all the functions and processes of the organization, and risk identification process had not undertaken at a sufficiently high level within the organization

in addition to this All risks are not properly identified and included in the audit process; there was not accepted as good according to respondents response.

- However, the following issues are obtained mutual level of conformance; like Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest, Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services, Internal auditors in this organization address qualitative issues in their work, Testing proper recording of assets, expenditure and the reliability of financial information and finally Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

5.1.3 Findings that related to the extent of adherence to operational compliance

- Since the aggregate value of all the extent of adherence to operational compliance conformance by housing development corporation, in general, replied by internal auditors and accounting division senior employees as fair by average mean values; which means The operational internal audit function is involved in the design of the financial internal controls and operational internal audit function is recognized as important to the organization it adds value.
- On the other hand the aggregate result indicates that the organization has not been able to identify and validate customers' needs and expectations, Compliance with laws, regulations, & contracts even the audit plan were not prepared according to Risk based approach and there were not Evaluation of projects and program accomplishments, in addition to this there was not done Examination of organizational productivity efficiency as well as organization resources or economy.

5.1.4 Gaps that observed to the roles of internal audit in promoting operational compliance.

- The result of the analysis also revealed that the Organization has not procedures to deal with ethical problems and operational internal auditor are not sufficiently senior beyond that there were not provide Well defined policies and procedures for identifying and updating

compliance obligations, Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement, relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements. In this case the company can't promote organizational improvement.

- Finally the aggregate conformance level with all that The operational internal auditor has assisted the organization to reduce the incident of loss through fraud, The budget of each project is sufficient for the completion of the respectively settled responsibilities, Operational internal audit is independent of day to day management operations, all internal auditors and accounting division senior employees are familiarized with the objectives, aims and plans of the Internal Audit Department, beyond this internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes and complies with applicable laws and regulations had well and witnessed by the average mean values of above 3.00. However, the standard deviation was above 1.0 indicates the respondent's perception was different from each other.

5.2 Conclusion

The general objective of this study was to investigate the role of internal audit practice in promoting operational compliance in the case of Addis Ababa Housing Development Corporation: by taking the mandatory guidance elements of international audit standards and housing development corporation internal audit manual By using data that was observed secondary and collected through using the primary source: the quality level of the role of internal audit practices in promoting operational compliance of the housing development corporation were analyzed and the related conclusions were drawn as follow.

Internal audit is the major mechanism to ensure operational compliance in public institutions. It plays an important role to the overall management system and acute service deliverance. The existences of operational compliance improve organizational efficiency and effectiveness, reduce information asymmetry during decision making, and responsiveness. By taking this aspect into consideration, this study was investigated internal audit roles that promote operational compliance in the housing development sector.

- The organizational operational compliance promoted, when there were internal audit risk assessment activities are implemented in all the functions and processes of the organization, risk identification process was undertaken at a sufficiently high level within the organization in addition to this All risks are must properly identified and included in the audit process.
- The operational internal audit function is involved in the design of the financial internal controls and operational internal audit function is recognized as important to the organization it adds value.
- The organization has been able to identify and validate customers' needs and expectations, Compliance with laws, regulations, & contracts even the audit plan prepared according to Risk based approach, Evaluation of projects and program accomplishments, Examination of organizational productivity efficiency as well as organization resources or economy, thus are properly needs concentration to be promote operational compliance.
- Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement, relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements must be fulfill
- Finally, operational internal auditors are must be sufficiently senior, and the company must have well defined policies and procedures for identifying and updating compliance obligations.

5.3 Recommendations

Based on the findings of the research the following recommendations were given:

- Internal audit should be performing periodic audits on the compliance function and adherence to the compliance framework, an end-to-end compliance process, and applicable legislation.

- Internal audit provides feedback in an audit report of non-compliance with specific legislation, action plans and target dates to correct this.
- The results of these audits are communicated to management, the risk committee and the audit committee.
- Where a non-compliance issue is of significant concern, this is escalated to the appropriate board committee.
- Actions to resolve identified audit issues should be reported at the risk committee as part of the company risk management framework, until the issue is resolved.
- Compliance monitoring should be a continuous process, which ensures that business is conducted in compliance with the applicable regulatory requirements.
- Compliance officers are forced to have a 12-month monitoring cycle. This is in line with international best practice for auditors, who audit high risk areas every 12 months. It might be necessary to monitor specific processes more regularly than annually.
- The organization set adequate internal audit staff including compliance framework with compliance officers.
- Developing a flexible annual audit plan using risk-based methodology covering reviews of all material controls, including financial, operational and compliance controls and risk management functions. The key focus is on accountability, compliance and efficiency.
- Internal audit risk assessment activity must be implemented in all the functions and processes and all risks properly identify.
- The organization should be able to identify customer's needs and expectation.
- The internal audit department must follow up each activity Compliance with laws, regulations, & contracts.
- The company must have evaluated projects and programs accomplishment through time period and Examine organizational productivity efficiency economy.

- Hiring professional auditors to compile operational internal auditor sufficiently senior.
- Prepare Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster.
- Follow up continuous improvement and provide relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements.
- finally, the internal audit staffs of the organization recommended to work in accordance with the available internal audit charters, since it formally define the purpose, authority, and responsibility of the internal audit activity, and it also helps the internal auditors to provide the appropriate reports and to know the extent of their relationships with the managements, briefly describes their rights and duties of internal auditors and the employers.

5.4 Future Direction of Research

Since to-date, the internal audit profession in Ethiopia was not discovered adequately. Thus, this research would benefit all housing development corporation of Ethiopia and other stakeholders that are concerned to adequately establish their internal audit department and benefit from the profession through viewing sound practices of internal auditing as a criterion.

Due to limited studies done in Ethiopia, more researchers are encouraged to conduct research on issues that related to the practices of internal audit in different industries including government owned companies by taking the same bench mark, future research needs to be conducted with this organizations that challenges and prospects of internal audit in promoting operational compliance in order to validate the findings of this study.

Future research may also determinants of internal audit in promoting operational success, in addition future research may be conducted on the perception of top-level management about

internal audit and the role of operational compliance by using international audit standard and auditing and accounting board of Ethiopia frameworks.

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Appendix 1
St. Marry University
School of Postgraduate Studies
Department of Accounting and Finance
Questionnaire

Dear Sir/Madam:

The enclosed questionnaire is designed to gather information about the role of internal audit practices in promoting operational compliance: evidence from Addis Ababa Housing Development Corporation. The questionnaire has been sent to all internal audit department/ staffs, Finance managers and senior accountants who are working in this company. The information you provide in response to the questionnaire will be used as part of the data needed for the study: The role of Internal Audit Practices in promoting operational compliance.

The study is being conducted as part of the undersigned researcher 's study for the Master of in Accounting and Finance at St. Marry University, Department of accounting & finance.

The results of the study is expected to contribute to the understanding of the role of internal audit practices in promoting operational compliance in this organization and as well add value to the development of the profession in Ethiopia.

❖ **Please note that there is no need of writing your name on the questionnaire.**

I would also like to assure you that the information you provide will be treated as strictly confidential and your participation in this study is greatly valuable.

Your honest and thoughtful responses are highly appreciated.

Kind Regards,

Telephone: +251913038720
E-mail: fikirmahi42@gmail.com
Addis Ababa

PART ONE

Demographic Data of the Respondent

Please indicate the following by ticking (✓) on the on the given spaces of the response

Options:

1. Gender: 1. Male 2. Female
2. Age: 1. Less than 30 years 2. 30-40 years 3. 40-50 years
4. 50-60 years 5. Above 60 years
3. Educational Level: 1. Diploma 2. BSC/BA
3. MSC/MA/MBA 4. PhD
4. Years of service in this organization?
1. Less than 3 years 2. 3-5 years
3. 6-10 years 4. More than 10 years
5. What is your current position in the organization?
1. Finance manager 2. Audit manager
3. Senior accountant 4. Senior Internal Auditor
5. Internal Auditor
6. Your internal audit unit/department staffing:
1. Adequately staffed 2. Moderately staffed
3. Poorly staffed

PART TWO

Remark: The following questions are Likert scale types and rate their extent to which you agree or disagree that the following statements best describe your organization. Use 5-scale ratings whereby; 1=strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

To notify your choice, you can write any one of the particulars given in the bracket (✓)

1. In your organization Statements regarding to current trend of internal audit practice.						
		1	2	3	4	5
1.1	All risks are properly identified and included in the audit process.					
1.2	The risk identification process is undertaken at a sufficiently high level within the organization.					
1.3	Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.					
1.4	The risk assessment activity have implemented in all the functions and processes of the organization.					
1.5	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.					
1.6	Internal auditors in your organization address qualitative issues in their work (for example, communication, management information, ethical issues, and equal opportunities).					
1.7	Testing proper recording of assets, expenditure and the reliability of financial information.					

1.8	Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.					
1.9	Examining and assessing organization policies, procedures, manuals and recommending best practices.					
2. Statements regarding to the extent of adherence of operational compliance.						
		1	2	3	4	5
2.1	The organization has been able to identify and validate customers' needs and expectations.					
2.2	Compliance with laws, regulations, & contracts has Been witnessed in our organization as a result of internal audit.					
2.3	The audit plan is prepared according to: Risk-based approach.					
2.4	Evaluation of projects and programs accomplishments					
2.5	The operational internal audit function is cost effective to the organization.					
2.6	The operational internal audit function is recognized as important to the organization in that it adds value to the organization.					
2.7	The operational internal audit function is involved					

	in the design of the financial internal controls.					
2.8	Examining use of organization resources (economy).					
2.9	Examining organizational productivity (efficiency).					
3. Statements regarding to the role of internal audit practices in promoting operational compliance.						
		1	2	3	4	5
3.1	All internal control procedures are always followed.					
3.2	The Organization has procedures to deal with ethical problems.					
3.3	The operational internal auditor has assisted the organization to reduce the incident of loss through fraud.					
3.4	The budget of each project is sufficient for the completion of the respectively settled responsibilities.					
3.5	The operational internal auditor is sufficiently senior.					
3.6	Operational internal audit is independent of day to day management operations.					
3.7	All the internal controls are documented in					

	procedures manuals.					
3.8	The external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.					
3.9	Staff training and awareness programs, including arrangements to identify, create awareness, promote compliance, deliver associated training courses, and foster continuous improvement.					
3.10	There is a proper quality control procedure in place within the operational internal audit function.					
3.11	Well defined policies and procedures for identifying and updating compliance obligations, including escalation and/or reporting arrangements for breaches.					
3.12	Are You familiarized with the objectives, aims and plans of the Internal Audit Department?					
3.13	Establishment and maintenance of a comprehensive compliance register to record relevant laws, regulations, standards, licenses, policies, plans, procedures, contracts, guidelines, specifications or other requirements.					
3.14	The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes.					
3.15	The organization complies with applicable laws					

	and regulations.					
3.16	The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements.					
3.17	The quality assurance and improvement program includes both internal and external assessments.					
3.18	Promotes organizational improvement.					
3.19	Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.					
3.20	Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.					
3.21	Communications are accurate, objective, clear, concise, constructive, complete and timely.					

If you have any Additional comments please present below.
