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**YARDSTICK INTERNATIONAL COLLEGE**

**SCHOOL OF POSTGRADUATE STUDIES**

**INTERNAL AUDTT AND RISK MANAGEMENT:**

**THE CASE OF SELECTED ETHIOPIAN**

**BUDGETARY PUBLIC SECTORS**

**RESEARCH PROPOSAL SUBMITTED TO YARDSTICK INTERNATIONAL COLLEGE DEPARTMENT OF MBA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE MASTERS OF BUSINESS ADMINISTRATION**.

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# DECLARETION

I, the undersigned, declare that this proposal entitled “internal audit and risk management: the case of elected Ethiopian budgetary public sectors”, is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

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# ADVISORS APROVAL SHEET

This proposal entitled “internal audit and risk management: the case of elected Ethiopian budgetary public sectors ”, set and summited by Adom Moges in partial fulfillment of the requirement of the post graduate studies in business administration has been examined and is recommended for acceptance of approval oral defense.

Dr. Berihun Muche (PHD)

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# ABSTRACT

Organizations are under pressure to identify all the business risks they face; social, ethical and environmental as well as financial and operational, and to explain how they manage them to an acceptable level. This paper evaluates the role of internal auditors in managing risk in Ethiopian budgetary public sectors. The study employs a cross sectional survey to investigate the role of internal audit in risk management and descriptive statistic will be used to analyze the data from the survey. The methodology employed for data collection is primary source and secondary source.

**Key word**: Internal Auditors, risk management and budgetary public sectors.

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# ACRONYM

**List of acronyms and abbreviations**

**IPPF**----------------------------------------------------International Professionals Practices Framework

**IIA**------------------------------------------------------------------------------Institute of Internal Auditors

**ISA**----------------------------------------------------------------------International standard on Auditing

**SAS**----------------------------------------------------------------------------Statement of Audit Standards

**AICPA**-----------------------------------------------American Institute of certified Public Accountant

**ACFE**----------------------------------------------------------------------Association of Fraud Examiners

**MOFED**-----------------------------------------------Ministry of Finance and Economic Development

**APBG**----------------------------------------------------Auditing Practices Board Auditing Guidelines

**IA**------------------------------------------------------------------------------------------------Internal audit

**ISPPIA** ---------------------International Standards for Professional Practice of Internal Auditing

**OFAG** --------------------------------------------------------------Office of the Federal Auditor General

**CIPFA**------------------------------------------- Chartered institute of public finance and accountancy

**SIAS** -----------------------------------------------------------Statement on Internal Auditing Standards

**CIMA** ---------------------------------------------------- Certified Institute of Management Accountant

**PCAOB** ---------------------------------------------------Public Company Accounting Oversight board

**ERM** ----------------------------------------------------------------------enterprise risk management

**ACCA**------------------------------------------------------Association of chartered certified accountant

**CIA** --------------------------------------------------------------------------------Certified internal auditor

**CMA**------------------------------------------------------------------- Certified Management Accountant

**CPA** ----------------------------------------------------------------------------Certified Public Accountant

**IIAM** --------------------------------------------------------------Institute of Internal Auditors Malaysia

**SPSS**------------------------------------------------------------- Statistical Package for Social Sciences

**IFAC**------------------------------------------------------------ International Federation of Accountants

# CHAPTER ONE

# INTRODUCTION

## Background of the study

Government spending is a very big business and the public demands to know whether the huge outlays of money are being spent wisely for public interest. To control government spending to the intended purpose, using risk based management is one of an irreplaceable technique. In Ethiopia, there are calls from public for governments to be accountable for the huge resources they hold on trust and manage for the people who gave them the political and administrative authority. The public sector represents a principal-agent relationship (Dan Mavrodin, 2008). The officials or administrators act as the agents while the citizens are the principals. In appropriate economic policies, better science-based and realistic, and in particular the role of internal audit based on risk management becomes significant, very important in governmental organization. Organizations are under pressure to identify all the business risks they face; social, ethical and environmental as well as financial and operational, and to explain how they manage them to an acceptable level (Popescu and Omran,2011)

Risk management is a systematic approach that aligns strategy, people, technology, processes and knowledge with the purpose of assessing, evaluating and managing the risk that an organization faces (Cohen, 2005). Risk management comprises the activities and actions taken to ensure that an organization is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities (ANAO, 2014). Risk management has occupied an important place on the agenda of practitioners, academics and the business community, despite its evident failure in the recent financial crisis that originated from the USA with its multiplier effect on the world economy (Huber & Scheytt, 2013). It has been raised to the top agenda of the business world because it enhances organizational performance and creates value for stockholders (Gates, Nicolas & Walker, 2012; Hillson, 2002). Recently, there has been growing interest in risk management across the world due to a number of parallel events. The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). Risk management importance is also attributed to the changing business environment characterized by threats from political, economic, natural, and technical resources (Wu & Olson, 2010).

Considering the huge benefit of risk management, a better understanding on risk management and discovery of control weakness using risk management is the recent government issue. Internal audit provides assurance on the effectiveness of risk management (IIA, 2013), The profession of internal audit is fundamentally concerned with evaluating an organization’s management of risk. All organizations face risks. For example, risks to the organization’s reputation if it treats customers incorrectly, health and safety risks, risks of supplier failure, risks associated with market failure, IT risks and financial risks to name some key areas (IIA, 2013). Thus, the objective of this study is to provide the role of internal audit in risk management in Ethiopian budgetary public sectors. The study also aimed to seek the competence, risk based audit plan and risk assessment of internal auditors to identify its effect on risk management that must be in place.

## Statement of the Problem

The increased size and complexity of organizations makes risk management a crucial activity in governing organizations (Beasley, Cluneb, & Hermanson, 2005). In managing the risk, studies articulate a lot about internal auditor. Current thinking risk management is fundamentally a control problem (Committee of Sponsoring Organizations, 1992; Spira & Page, 2003) illuminates the centrality of the assistance of internal auditing in risk management. Conceptualizing the risk management rationale of internal auditing requires unpacking the concept of risk and its management. Considering the definition of internal auditing in view of the definition of enterprise risk management (ERM), which is a central notion in the governance of contemporary organizations (Beasley 2005; Gordon, Loeb, & Tseng, 2009), clarifies the role of internal auditing as a risk management technology. De Beelde G. Saren and I. De Beelde (2006) found that Internal Auditors are playing a pioneering role in the creation of a higher level of risk and control awareness in managing risk in the management system.

The new risk management standard (2120.A2) promotes that “the internal audit activity must evaluate the potential for occurrence of fraud and how the organization manage fraud risk management. The role of the internal audit within the risk management is an issue under debate in literature and practice. In their study, Gramling and Myers (2006) have proved that internal audit has a moderate role within risk management. It is the main component of work of internal auditors to assess the organizational risks. This is the identification and analysis of major risks associated with the achievement of the management objectives (Selim, Woodward and Allegrini, 2009).

Deloitte (2009) argued that the world public officials consider that the inappropriate management of risks is one of the many challenges incurred by the financial departments of the public entities. The level of internal audit proficiency and skills, knowledge and experience, will enhance their effectiveness (Badara & Saidin, 2014). They argued that a positive relationship between internal audit effectiveness and the level of ERM implementation. There are lack of risk training and education and lack of a framework that supports the development of skilled and capable workers in the industry (CBN, 2011 & 2012). Also, rational knowledge becomes necessary to carry out informed intervention (Miller & Rose, 1990) to ensure achievement of goals in the face of high risk. It is reasonable to presume that a lack of general awareness and understanding about risk management results in a lower level of appreciation of how internal audit activities can provide meaningful insights and assurance surrounding risk management activities (IIARF,2011). Further this research argued that a role of internal audit is in two of the more common risk assessment areas: (1) identification and evaluation of key risks and (2) identification of emerging risks. Ahmad Othman and Jusoff (2009) investigated the effectiveness of internal audit in Malaysian public sector. The study revealed that that the lack of qualified audit staff was ranked as the major problem faced by internal auditors in conducting an effective risk management.

According to the National Standard on Audit 240 ‘Fraud and Error’ (SNA 240), When planning the audit, the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information about any substantial fraud or error discovered. Petraşcua D, and Tieanub.A (2014) claimed that internal auditing is accountable for assisting in the organization’s fraud risk assessment and serving to decisive role to enable that the organization is running on the right truck of strategy. Based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, is discovered.

IIA standards (2000, 2010) Head of Internal Audit should conduct a risk-based planning to set priorities in line with the objectives of the organization. Internal audit program must in turn be based on a risk assessment carried out at least once a year and to take into account the views of general management. Popescu & Omran (2011) argued that incorrect or incomplete planning leads to a loss of risk-bearing activities. Further they argue that careful selection of activities in high risk areas audited based on the risks associated with these activities.

### The above studies implied there is the scarcity of research on internal audit and risk management. Most the studies were conducted on financial institution and developed economy. Limited studies (Unegbu and Kida, 2011), Kuta (2008), and (Badra, 2012) on risk management in the public sector in developing countries and lack of research on the role of internal audit in risk management in the Ethiopian public sectors are part of the motivation. As a result, these persuade the researcher to investigate into the role of the internal audit in risk management on the subject of competence, risk assessment and risk based planning in Ethiopian budgetary public sectors.

## Objective of the Study

The general objective of study is to identify the role of internal audit in risk management of budgetary public sector of Ethiopia. Specifically, the objectives of the research are to:

* examine the contribution of IA in evaluating risk management processes and reporting of key risks
* Examine the competency of internal auditors that keep pace with evolving in risk management.
* Examine the contribution of risk assessment by internal audit as a tool for risk management.
* Examine the effectiveness of internal audit risk-based planning in managing risk.

## Research Questions

The study conducted for that purpose to answer the following research questions:

* Does internal auditor’s competency enhance internal audit in risk management in budgetary Public sectors?
* Does risk based planning conducted by internal auditor and contributes its role in risk management in Ethiopian Budgetary Public sectors?
* Do risk assessments exercised by internal audit and play significant role in risk management in Ethiopian Budgetary Public sectors?

## Significance of the Study

The findings of this study would be of benefit to the Management of public body, as it will reveal how risk management take place using internal auditor. The study will assist government to ascertain the level of risk management to the operational guidelines and regulatory framework. This will help to reduce lapses where they are noticed and update those ones which have become out of place.

The findings of this study especially, role of internal audit regarding to risk control will add to the general knowledge on the operation of internal control mechanisms in organizations in general and public sector in particular. The general public will benefit from the findings of the study because risk will be properly managed if the recommendations of this study are implemented by the management of budgetary public sector. This will result in more effective method of risk management.

## Scope and limitation of the Study

This study is delimited to the evaluation of risk management and internal audit in the Ethiopian budgetary public sector in its entire ramification through fifteen of the public sectors. Only internal audit, accountant staffs of the Ministries and public universities will be used in the study. The Senior managements, other category of workers will not use in the study.

While this study provides knowledge in the study of risk management and internal audit, it does suffer from a few deficiencies. The study assessed only auditor competence, risk assessment, and risk based plan audit concerning the management of risk; it did not consider the role of management and the code of ethics for employees as vital components that may affect risk management activity.

## Organization of the Study

In addition to the preliminary page, this research paper consists of three chapters. The first chapter with its sub topics was introductory parts incorporated the background, statement of the problem, research objectives, research questions, significant of conducting the study, and scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit and risk management. The third chapter forwards the methodologies used to conduct this study. Finally, the fourth chapter deal with time and budget.

# CHAPTER TWO

## LITERATURE REVIEW

**2.1** Introduction

This chapter deals with the review of related work of experts in the area of study. The review of the related literature is discussed under the following:

* Conceptual Framework and Theoretical Framework
* Review of empirical studies
* Gap of the Literature

## Concept of risk management

Cohen (2005) defines risk as all that can interfere with achieving objectives, being to some extent the cause of failure and, from financial point of view, loss. Vicenti (quoted by Renard, 2008) states that risk represents the threat for an event or action to have unfavorable impact on the capacity of the entity to successfully accomplish its objectives. Another approach presents risk as the possibility for a problem to appear and have fatal consequences, affect the plans of the entity or make less probable its objectives achievement (Daykin, 2005).

Risk management can be defined in many ways. For example, Anderson and Terp (2006) maintain that basically, risk management can be defined as a process that should seek to eliminate, reduce and control risks, enhance benefits, and avoid detriments from speculative exposures. The objective of risk management is to maximize the potential of success and minimize the probability of future losses. Risk that becomes problematic can negatively affect cost, time, and quality system performance.

Internal auditing assists management and the board in managing the risk of failure to achieve organizational goals. Internal auditors play a key role in monitoring a company’s risk profile and identifying areas to improve risk management (Goodwin-Stewart & Kent 2006). Further, internal auditing improves organizational efficiency and effectiveness through constructive criticism.

Risk management constitute an essential part of the strategic management process of any organization involved in the implementation of development strategies (Monday and Aladeraji, 2015). Risk is the possibility of an event or activity impacting adversely on an organization, preventing it from achieving organizational outcomes. Risk management comprises the activities and actions taken to ensure that an organization is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities (ANAO, 2014).

## Theoretical review

From the mid-19th century, the professional category of accountants and auditors emerged as a specialized group of people involved in preventing and detecting real or possible frauds and errors in the financial situations within the state or an economic entity. Their role was not only to investigate, but also to assess possible risks and to guarantee the responsibility of internal control mechanisms. At the end of the 20th century and the beginning of the 21st century, auditors have become a necessity for the good-functioning and efficiency of an economic entity’s management that can prevent and deter possible scenarios of trickery, funds embezzlement, or theft.

Risk is unavoidable and it is permanently present in the activity of all entities, both in public and private sector. Generally, risk is defined by the combination of the probability of an event occurrence and its consequences. Therefore, risk means a series of challenges to face when taking some major decisions, due to the fact that it diminishes concentration on success and prevents achieving the estimated results.

Literature, national and international accounting regulators, and accounting bodies give various meanings to risk. In economic terms, risk is an uncertain and probable event or a process which can cause loss into an economic activity, operation or action (Angelescu et al, 2001). Cohen (2005) defines risk as all that can interfere with achieving objectives, being to some extent the cause of failure and, from financial point of view, loss. Vicenti (quoted by Renard, 2008) states that risk represents the threat for an event or action to have unfavorable impact on the capacity of the entity to successfully accomplish its objectives.

Another approach presents risk as the possibility for a problem to appear and have fatal consequences, affect the plans of the entity or make less probable its objectives achievement (Daykin, 2005). The public sector perceives risk as an event or situation of exogenous or endogenous nature of a public entity which can interfere with the accomplishment of its missions, it can affect its patrimony or image as well as its staff’s safety (Ernst & Young, 2008).

Situating the analysis of internal auditing in this arena helps us understand the organizational rationale for internal auditing and conceptualize its mode of operation. The role of internal auditing has been transforming along with changes in its environment. Prior to the 1940s, internal auditing was mainly focused on checking propriety of transactions and records. The development of information economy based on the concept of systems in the 1940s facilitated the emergence of modern internal auditing with a focus on systems evaluation (McNamee & McNamee, 1995). The developments in management of the firm up to the 1940s—explained in the preceding section of this paper—created the conditions for the rise of internal auditing. The formation of the Institute of Internal Auditors (IIA) in 1941 serves as a land mark for this development (Ramamoorti, 2003). As also emphasized in the definition highlighted earlier (The Institute of Internal Auditors, 2010), contemporary internal auditing is concerned with not only providing assurance on compliance with policies and procedures but also offering a value adding service with a broad scope of activities including assisting organizations in risk management (McNamee & McNamee, 1995). The shift in emphasis of internal auditing is a result of internal and external pressures on organizations that caused changes in responsibilities of boards of directors, management and external auditors (Spira & Page, 2003).

In contemporary organizations, internal auditing plays a crucial role in enhancing quality of corporate governance (Cohen, Krishnamoorthy, & Wright, 2004; Spira & Page, 2003) and providing assurance to boards of directors on managing risk (Sarens., 2009) thereby providing them with comfort in this regard (Carrington & Catasús, 2007; Sarens, 2009).

The profession of internal audit is fundamentally concerned with evaluating an organization’s management of risk. All organizations face risks. For example, risks to the organization’s reputation if it treats customers incorrectly, health and safety risks, risks of supplier failure, risks associated with market failure, IT risks and financial risks to name some key areas. The key to an organization’s success is to manage those risks effectively - more effectively than competitors and as effectively as stakeholders’ demand (IIA, 2013).

To evaluate how well risks are being managed the internal auditor will assess the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of an organization and report this directly and independently to the most senior level of management (IIA, 2013).

The system by which separate unit or sections of the organization manage risks is referred to as traditional risk management (TRM) or "silo". Traditional approaches view risks as a series of single and unrelated elements where individual risks are classified and coordinated separately (Hoyt & Liebenberg, 2011). The changing phenomenon from the traditional approach to the new trend in risk management is often referred to as a paradigm shift (Manab, 2009).

IIA, 2010 states that the role of Internal Audit is likely to differ from one organization to another. In practice, Internal Audit’s role may include some or all of the following:

* focusing the internal audit work on the significant risks, as identified by management, and auditing the risk management processes across an organization. providing assurance on the management of risk
* providing active support and involvement in the risk management process
* facilitating risk identification/assessment and educating line staff in risk management and internal control
* Coordinating risk reporting to the board, audit committee, etc.

As a start, the IIA Implementation Standard 1220.A3 states that internal auditors must have regard to key risks and that ‘the internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.’ Performance Standard 2100 argues that ‘the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance processes by using a systematic and disciplined approach.’ While Implementation Standard 2110.A1 makes it clear that ‘the internal audit activity should monitor and evaluate the effectiveness of the organization’s risk management system.’

Internal auditors must add value to an organization and IIA Performance Standards 2000 state quite clearly that ‘the CAE should effectively manage the internal audit activity to ensure it adds value to the organization.’ While the IIA’s Implementation Standard 2010.C1 builds on this need to add value and get involved with promoting risk management as it states that ‘the CAE should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Those engagements that have been accepted should be included in the plan.’

Risks facing present day society are too complex to manage through insurance aside from not being amenable to statistical prognosis (Aradau & Munster, 2007; Beck, 1992). By building on current thinking that risk management is fundamentally a control problem (Committee of Sponsoring Organizations, 1992; Spira & Page, 2003), the present paper advances the central argument that internal auditing can be viewed as a risk management technology deployed in the multi-layered accountability structure of capitalist organizations. It is argued that internal auditing provides selective visibility to areas that need management intervention to ensure that business activities are executed according to management’s conceptions and that management meets the accountability demands of the board and shareholders of the firm.

Internal audit’s role in risk management involves assessing and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks, and evaluating the trade-offs necessary for the organization to accomplish its strategic and operational objectives. Namee & Selim (1998) consider that the emergence of the risk concept has influenced also the concept of internal audit whose development consists of three stages: identification and analysis of risks, systems of internal control, audit of activities with emphasis on risks.

The above observations underline the role of internal audit in risk management in the public sectors. Even though many efforts to strengthen financial controls and institute good governance at the Federal level and state government levels, the number of fraud cases is still on the rise, in fact becoming more severe – a clear signal that some form of action need to be taken to control this increasing crisis through risk based management techniques.

## Empirical Review

Unegbu & Obi (2007) defined internal audit as part of the Internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management. According to Unegbu & Obi (2007) Internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, ensure capacity utilization and maximum benefit derivation. In the view of Adeniji (2004) Internal audit is part of the internal control system put in place by management of an organization. Internal auditors play a key role in providing both assurance and consulting services with respect to the management of risk within their organizations (Beasley, Clune, & Hermanson, 2006).

### Internal audit competence and risk management

The IIA (2009) stated that auditors should use their professional skills, due care and prudence in every assignment. Sometimes, internal auditors are qualified engineers, production engineers, sales persons, management personnel and accountants, so they have the relevant knowledge and experience of the operations of the organization (Selim, Woodward and Allegrini, 2009). Arena and Azzona (2009) submitted that high qualification of internal auditors may be an excellent way to reduce the organization’s performance gap. As in the private sector, public sector internal auditors should need high education to understand their responsibilities under the public-sector finance, accounting and to perform high standard of work in such areas.

Adequate and competent internal auditors refer to capacity of internal auditors. The study of Akinbuli (2010) demonstrated that adequacy, quantity and competence of internal auditors determine the quality of their work in any given task within the organization. Previously, Kwanbo (2009) mentioned that the large size of internal auditors in an entity is an indicator of better resources that the audit department has within an organization. This may be used to enhance the quality of internal audit work as many audits can be planned to be done together, and a broader scope could be covered within reasonable timeline.

Furthermore, the effectiveness of internal audit requires that the staff be professionally educated, trained and experienced in the field or work. Beyond the formal education from universities and colleges of business, they have to get professional certificates from recognized professional bodies after which they have to get professional practical hands-on training from audit practice in order to acquire effective experience and continual development is key in such field (Seol et al, 2011; Stewart & Subramaniam, 2010 and Leung & Cooper, 2009). Accordingly, internal auditor need to be equipped with risk management skill. Some of the skills needed by internal auditors include communication skills (Seol, Sarkis and Lefley, 2011) such as listening, interpersonal, written and oral communication skills. These play a big role in the development of internal auditors and help them to get evidence from auditors and provide a reasonable assurance to users of their reports. Cohen and Sayag, (2010), Leung and Cooper (2009), Arena and Azzone (2009) demonstrate that internal audit quality measured in terms of competence of internal auditors is subject to academic formal education, working experience and continuous developmental program.

Provide an independent and objective consultancy service specifically to help management improve the public body’s risk management, control and governance. Internal audit 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. Such consultancy work contributes to the opinion which internal audit provides on risk management, control and governance (MOFED, 2010)

In Report II of the 2010 IIA Global Internal Audit Survey, which focused on competencies of internal auditors, 72 percent cited “risk analysis and control assessment techniques” as important. This skill was rated the second most important skill, slightly behind “understanding the business” (73 percent), which is a critical enabler to understanding risk in any organization.

Internal auditors and risk managers share some knowledge, skills and values. Both, for example, understand corporate governance requirements; have project management, analytical and facilitation skills and value having a healthy balance of risk rather than extreme risk-taking or avoidance behaviors. Any internal auditor who cannot demonstrate the appropriate skills and knowledge should not undertake work in the area of risk management. Furthermore, the head of internal audit should not provide consulting services in this area if adequate skills and knowledge are not available within the internal audit activity and cannot be obtained from elsewhere (IIA, 2009).

### Internal auditor and risk assessment

Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control systems (Soh and Bennie, 2011). The internal audit function provides such stakeholders with information on a range of important issues. It plays a vital role in monitoring the risk profile of an organization. Moreover, it identifies areas that will enhance the risk management procedures. An internal audit is helpful for entities in identifying and evaluating risks and putting the profession at the front line of risk management (Kwanbo, 2009). Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company’s risk profile and identifying areas to improve risk management (Goodwin and Kent, 2006).

It is the main component of work of internal auditors to assess the organizational risks. This is the identification and analysis of major risks associated with the achievement of the management objectives (Selim, Woodward and Allegrini, 2009). Similarly, Arena and Azzona (2009) view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principle. In this situation, management must determine the level of risk carefully to be accepted, and should try to maintain such risk within determined levels. Internal auditors play a key role in monitoring a company’s risk profile and identifying areas to improve risk management (Goodwin and Kent, 2006).

Assessing the effectiveness of risk management is one of the basic tenets of the definition of the internal audit function (Hass, 2006). Goodwin and Kent (2006) documented a strong association between internal audit use and organizational commitment to manage risk. The internal audit function can add value if it can understand issues of risk and assist the management to improve its risk management processes (Lindow and Race, 2002; Gramling and Myers, 2006). For Simons (2000), cited in Hass (2006), internal audit adds value by supporting the execution of strategy.

Therefore, public sector entities, at whatever level - Federal, State or local government, - are required to frequently assess the level of risk they are experiencing in order to take necessary actions (Messier, Reynolds, Simon and Wood, 2011). It is the role and responsibility of internal auditors to ensure that organizational risks are assessed and managed as well as to ensure effective control of all organizational activities by monitoring and suggesting the effective policies, procedures and mechanisms that ensure management’s directives are properly carried out towards the achievements of goals (Aikins, 2011; Vijayakumar & Nagaraja, 2012).

Felix, Gramling and Maletta (2001) find that availability of internal audit in an organization depends on the level of risk. When organizations are exposed to high risk, management‘s demand for internal audit in the management of risk may be greater. Internal audit‘s focus on risk management in turn enables it to align its plans with organizational goals and strategies (Selim & McNamee 1999). As different organizations may be exposed to different levels of risk, the demand for internal audit services may vary accordingly (Arena, Arnaboldi & Azzone 2006). Goodwin and Kent‘s (2006) hypothesis of a positive relationship between business complexity and existence of internal audit in an organization could also suggest that the level of risk in an organization may influence internal audit practices. Likewise, Allegrini and D'Onza (2003) examined risk assessment and internal audit in Italian organizations and find variations in the internal audit approaches followed in those organizations.

Internal audit activities are explored in the literature, specifically those included in the new IIA definition of the function. In this respect, several studies have considered the task of risk management now formally assigned to internal audit (Vijayakumar and Nagaraja, 2012; Mihret, 2010), obtaining differing outcomes. In the USA, the new requirements of the Sarbanes Oxley Act relating to internal control and review, and disclosure, emphasize the need for internal auditors to step up to the challenge of doing more than the traditional duties of assurance. Yet, Gramling and Myers (2006) report that a half of all their sample of chief internal audit executives in the USA stated that they only spent up to 10% of their time and budget on risk management activities, whereas in their comparison of the situation in Belgian and US firms, Sarens and De Beelde (2006a) reveal a much greater impact on the part of internal auditors in risk management and control awareness. Furthermore, in large Italian companies it is seen that the IAF makes a sound contribution to the risk management process (Allegrini and D‟Onza, 2003), as do a large majority of internal auditors in Australian firms (Leung, 2003).

Because risk management is an important but complex process of scientific approach to risk research in this area are multiple and can be classified in the sub-areas of scientific research. Specialists in the field concerned with states that establish and monitor internal audit systems are the responsibility of the entity that retained a key manifestation of the concept of modern management theory and practice, responsibility (Mircea Boulescu, 2004). For the private sector, internal audit activities cover all economic entity, each of them individually or collectively, may be the weak link in the chain that affect the performance of procedural goals in an efficient entity. For the public sector, internal audit is focused on what has influence on the proper administration of public revenues and expenditures (Dan Mavrodin, 2008). Risk Identification is the first and most important phase of risk management process; it consists in identifying potential hazards that exist within the entity. Specialists in the field (Ghita, 2004) shows concern about the working methods such as questionnaires or lists of questions, catalogs or lists of hazards, quantitative and qualitative analysis methods for identifying hazards. Techniques used to identify the risks are strategic and operational leaders interviewed the survey and questionnaire, brainstorming on activities or departments, organizing focus groups (discussion groups, coordinated by a dedicated moderator for achieving goals set in advance), comparisons, groups, verification was. In June 2000, the published Les Mots IFAC auditing standard operation no. 2110 internal audit to establish a risk assessment methodology, which requires the following phases:

* Identification of auditable operations;
* Identifying threats, risks inherent in auditable operations;
* Establishing criteria (factors) risk analysis and assessment.
* Establish criteria for assessing the risk level;
* Determining the total risk score;
* Classification of operations into three major categories: operations risk level associated large, medium or small;
* Hierarchy of operations that have environmental risks and higher level in order decreasing the risk scores;
* Developing the theme selected audit objects in detail.

The practice results that never risks cannot be fully assessed. The current phase is an imperative that could be termed as state Ghita (2004) "management responsiveness, the need to track changes to diagnose or science, to judge the changes and their associated risks affecting the organization”.

The Institute of Internal Auditors states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IFAC, 2010 and IIA, 2009).

Internal audit’s concern with economy, efficiency and effectiveness (Al-Twaijry, Brierley, & Gwilliam, 2003; San Miguel & Govindarajan, 1984), i.e., 3Es, is closely aligned to the notion of risk management in complex organizations. This focus indicates that internal auditing assists management by making visible potential disturbances that could hinder the ability of organizations to achieve goals. Within the framework of organizational policies and procedures that serve as control parameters, internal auditing assists the board and management in managing risk. The assurance aspect of internal audit helps prevent and detect irregularities that result from mistakes or fraud while the consulting dimension helps enhance economy, efficiency and effectiveness (Al-Twaijry et al., 2003; Allegrini & D'Onza, 2003). Internal audit’s role in enhancing financial reporting quality and audit committee effectiveness (DeZoort et al., 2003) relates to results controls. Assurance services of internal auditing enhance worker accountability to management (Gramling et al., 2004; Mihret et al., 2010), which mainly serves an action control purpose.

Internal audit’s role in the mitigation of wastage of capital through fraud deterrence (Beasley, Carcello, Hermanson, & Lapides, 2000; Raghunandan & Mchugh, 1994) originates from the risk management imperative (Spira & Page, 2003). Likewise, the provision of consulting services on the efficient and effective use of resources (Al-Twaijry et al., 2003) helps management address risks ex ante by identifying conditions that potentially hinder the enterprise from achieving corporate goals and suggesting solutions to address them. By doing so, internal auditing can help management to meet profit targets and achieve other efficiency goals (Mihret & Woldeyohannis, 2008). From the accountability perspective, therefore, internal auditing can be considered as serving a useful function by helping maximize wealth as well as reduce wastage and devaluation of capital that could result from fraud and inefficiency. Internal auditing assists enterprises to manage the risk of failing to meet profit targets and remain profitable despite external risks that may be posed by brisk competitive markets.

The efficiency imperative and the need to achieve organizational goals, which serve as the organizing logic for managing complex organizations (Thompson, 1967), are closely intertwined with the notion of risk management. The management of risk involves undertaking three tasks: defining the goals of the organization, identifying the potential drivers of risk and laying out appropriate risk responses (Ritchie & Brindley, 2007; Sitkin & Amy, 1992). The first two components in this process concern themselves with the general principle of risk assessment and the response aspect is another principle, i.e., control action, invoked to ensure that goals are achieved (Boehm, 1991). Despite variations in practice across countries (Demidenko & McNutt, 2010; Sarens & Christopher, 2010), risk management is regarded as a key component of corporate governance that enables organizations to fulfill goals (Subramaniam, McManus, & Zhang, 2009). Considering the definition of internal auditing in view of the definition of enterprise risk management (ERM), which is a central notion in the governance of contemporary organizations (Beasley et al., 2005; Gordon, Loeb, & Tseng, 2009), clarifies the role of internal auditing as a risk management technology. Committee of Sponsoring Organizations (COSO) (Committee of Sponsoring Organizations, 2004) defines ERM as a:

process, effected by an entity’s board of directors, management and other personnel applied in strategy setting, and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The complexity of business and the external environment within which firms operate make it evident that goal achievement of enterprises can be beset by eventuation of risk. Contemporary society is considered to have reached a point where risk is too large to manage through insurance and also difficult to make of statistical prognosis (Beck, 1992). Aradau and Munster (2007) concur with the notion of size, complexity and the impracticality of statistical prognosis of risk, but argue that society governs risk through a different approach. They contend that risk is amenable to governing through technologies that (Aradau & Munster, 2007; Diprose, Stephenson, Mills, Race, & Hawkins, 2008). Internal auditing can be interpreted as a technology employed and an assurance and advisory employed to ensure that risk is managed through proper conception and execution of business activities.

### 2.4.3. Internal audit risk based planning

The main challenge faced by majority of internal auditors is how to allocate limited internal audit resources in the most effective way - how to choose the audit subjects to examine. This requires an assessment of risk across all the auditable areas that an auditor might examine. The objective is of risk-based planning is to ensure that the Auditor examines subjects of highest risk to the achievement of the organization’s objectives.

As per IIA standard, the internal audit activity is a planned activity, a process that is done based on risk analysis and associated activities is intended to add value to the entity being audited. The auditor should plan the audit in a manner which ensures that the mission will be accomplished in terms of economy, efficiency, effectiveness and the agreed date. Audit planning is to build a comprehensive strategy and detailed approaches to the nature, duration and extent of audit coverage planned.

Petraşcua D, and Tieanub.A (2014) stated that when planning the audit, the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information about any substantial fraud or error discovered. Moreover, IIA standard 2121.A2 indicates that the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. Internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing and need to be alert to the signs and possibilities of fraud within the organization. Based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, will be discovered (Petraşcua et al, 2014). Accordingly, the auditor search for adequate verification in conducting audit that fraud has been committed or not.

IIA standard 2010.A1 identify that internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process. The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organizational objectives and priorities.

## GAP of the literature

Limited studies have been conducted in many countries on internal audit and risk management [For example, Beasley, Branson and Hancock, (2010) in USA, Petraşcua et al (2014) in Romania; and Ghazali, Rahim, Ali, Abidin (2014) in Malaysia, (Leung, 2003) in Australian firms. Most of these studies were performed in developed world, and different countries. They were also carried out with different variables, and research methods. Some of the variables used include top management support, auditor type, quality of the internal auditor, risk culture, board independence, board size, regulatory compliance, education and training, cross-functional staff and a host of others. However, the characteristics of these variables depend on the peculiarity of each country and their context. These studies motivate researcher to analyze these facts in one geographical or regulatory context for large public sectors. To get an in-depth understanding of these topics, alternative research methods in addition to archival or survey data was requested and used for specific circumstances and countries.

Generally, reviewing of the internal audit literature shows limited research on role of internal audit in influencing the risk management. It has also maintained that internal audit role could contribute in effective of risk management. The review suggests the following gaps in the literature:

* Limited prior research has examined concerning the role of internal audit in risk management in wide public sectors in one geography;
* Limited prior research has examined concerning internal audit and risk management in budgetary public sectors;
* The limited literature to date largely focused on public sectors in developed economies. As a result, understanding of the global configuration of the role of IA profession in managing risk appears incomplete.
* Different government agencies were not used. This might be useful in order to gain evidences that are more conclusive.

Thus, this study aims to examine internal audit role in budgetary public sectors against struggling in risk management become necessary to add important contribution to global conclusion

# CHAPTER THREE

## RESEARCH DESIGN AND METHODOLOGY

**3.1**.Introduction

The important part of the research activity is to acquire successful research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. It involved a blueprint for the collection, measurement and analysis of data. In this chapter the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, data analysis method, and finally questions to be send to respondents are included.

**3.2**. Research Design

The study expected to investigate the role of internal audit in risk management in budgetary public-sector offices. The data to be used to conduct this study will use the primary data through questionnaires. Questionnaires were distributed to the internal audit directors, auditors, Finance directors, and accountants. The study areas are selected using purposive sampling method from the federal public-sector offices in which internal audit has crucial role in managing risk. Secondary data will be obtained from internal audit report and audit working paper, and Office of auditor general audit report that concerns internal audit activity. The audit report of both external audit and internal audit from year 2014 up to 2016 were used to analyze the variables.

**3.3.** Sampling Techniques

The target populations for this research were the Federal Ministry offices and Universities. The total population number is 58 which include 33 Universities and 25 Ministries. Due to the difficulty of covering the entire total existing budgetary public sector, the researcher obliged to minimize its study area by focusing only on 20 (16 Ministries and 5 Universities) purposively selected public-sector offices that are expected to be used as a representative of other sectors. The researchers are often believed they can obtain a representative sample by using a sound judgment, which result in saving time and money Black, K (2010). The researcher focuses on these public sectors which have sufficient internal audit staffs, financed by big budget, homogenous, very popular in nature and have greater impact to influence the country’s overall social, political and economic issues. From these sectors audit directors, senior auditors, finance directors and accountants will also purposively have selected as they know more about internal audit and risk management than any other staffs. These participants are selected as they have Concrete experience in which the researcher is interested (Saunders,M,, Lewis, P. & Thornhill, A 2012)

The use of purposive sampling enables generating meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants (Carver 1978; Cohen 1990; Neuman 2006; Patton 1990).

**3.4.** Sample size

Based on the scope identified, the researcher study has the population of 58 of public sector offices which are classified into two (Ministries and Universities) based on their services rendered to the public and the researcher focused on twenty public sector offices purposively. Population in terms of respondents is 232 (four people from each 58 sectors) persons. The questionnaires will be distributed for these selected public-sector offices to get appropriate responses. To obtain the adequate responses through questionnaire the researcher believes that distributing the questionnaire for one audit director, one senior auditor, one accountants, one finance director, and in total four respondents from each selected ministry and university, thus a sample population is 80 respondents. These participants are selected as they have Concrete experience than any other in which the researcher is interested (Saunders,M, Lewis, P. & Thornhill, A 2012). Even if the use of proportional sampling is appropriate in order to obtain a representative sample from each sector; because of the samples selected from the population have not equally selected /not equally important/ the use of purposive sampling is more essential to obtain a typical and representative of the whole universe (Kothari, 2004).

The purposively selected Federal Ministries and Public Universities from the population are:

1. Ministry of Industry
2. Ministry of water, Irrigation and Electricity
3. Ministry of Health
4. Ministry of forestry and environment
5. Ministry of Justice
6. Ministry of Federal affairs
7. Ministry of construction
8. Ministry of sport and youth
9. Ministry of Finance and Economic development
10. Ministry of social and labor
11. Ministry of Trade
12. Ministry of rural development and houses
13. Ministry of culture and tourism
14. Ministry of Education
15. Ministry of Civil service
16. Ethiopian Civil service university
17. Kottobe University College
18. Addis Ababa science and technology University
19. Adama science and technology University

**3.5** Data Collection Procedures

Upon collection, the questionnaires will be coded. They are then fed into Statistical Package for Social Sciences (SPSS) version 20.00. Case summaries are then generated to check for any errors in data entry. Exploratory data analysis will be conducted to determine the effect of any outliers and missing entries. Frequencies, percentage and mean will generate for each variable namely: Competence, risk based planning and risk assessment against risk management.

**3.6.** Data Collection Instrument

These are the steps/process to be used by the researcher while collecting data using the collection instrument. Questionnaires will be distributed to the respondents. These questionnaires will be delivered by hand to the respondents at their duty stations during working hours personally. They will be planned to issued and collected after three weeks to give respondents enough time to answer the questions.

The primary data will employ to accomplish the study, and to collect the data from the respondents to be included in the sample questionnaires. The questionnaires will distribute to the Finance director, accountants, audit director and auditors of the public-sector office. The type of questions that will distribute to accounting section and audit section are same. The questionnaires are about Competence, risk based planning and risk assessment by internal audit.

The instrument included closed and open-ended questions in order to provide both, the possibility to express opinions freely as well as useful framework for answers. The instrument consisted of 2 open and 6 closed questions for the variables. All interviewees had the chance to explain their answers to close questions as well.

In addition, questionnaires are in the form of Likeret-Scale type that shows respondents agreement or disagreement by constructing into five-point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires were adopted and modified from the prior author and literature review (Hamid et al, 2012, Mihret and Yismaw, 2007; Baharud-din et al, 2014). The questionnaires to be distributed to the respondents are organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the Competence, risk based planning and risk assessment by IA. Secondary data obtained from internal audit report and audit working paper, and Office of Auditor General Audit Report that concerns internal audit activity.

# CHAPTER FOUR

## DATA PRESENTATION, INTE RPRETATIONSAND ANALYSIS

**4.1** Introduction

As indicated in the previous chapter, the main attempt of this study is to investigate the role of internal audit in risk management in budgetary public sectors. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from accountants and internal auditors of the public-sector offices covered in the questionnaire. The discussion begins with the questionnaires’ response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education. Wherever applicable, tables, charts and figures are provided to illustrate and support the findings. In the analysis of the data the research questions raised, frequency and percentage tables based on the likert type of scale responses of respondents were constructed. The analysis was done based on the research questions.

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program through a descriptive statistic to provide details concerning question and factors that affect the IA in fraud detecting regarding public sectors. Data from questionnaires was summarized, edited, coded, tabulated and analyzed.

Qualitative and Quantitative analysis was used as data analysis technique. Primarily the data was collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, coded and analyzed to present the research findings. Analysis of the data was based on the auditors’ competence, independence, fraud risk assessment and their impact on audit in fraud detection. The study targeted a sample size of 80 respondents from which 72 filled in and returned the questionnaires making a response rate of 90%. This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick & Bowen (1996) recommended a response rate of 70%.

**4.2** Characteristics of the Respondents

**4.2.1** Response Rate

The questionnaires were distributed to the finance directors, accountants, audit directors and auditors of 20 purposively selected Federal Government Ministries and Universities. Four questionnaires were delivered to each public sector. From distribution of 80 questionnaires, 72 questionnaires were collected (16 responses from finance directors, 17 accountants, 19 audit directors and 20 senior auditors) giving the response rate of 90%. This shows good response rate for all respondents.

### Demographic characteristics

As shown in Table 1, the major characteristics of the questionnaire respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 66.67 % as male and 33.33% as female which suggests that high status jobs in public sectors are male-dominated and this is an indication that both genders were involved in this study.

**Table 1** **Respondents gender Profile**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Demographic Questions** | | **Response** | | | | | | | | | |
| Finance directors | | accountants | | Audit directors | | Senior auditors | | Total | |
| Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % |
| **Gender** | Male | 11 | 69 | 10 | 59 | 15 | 79 | 12 | 60 | 48 | 66.7 |
| Female | 5 | 31 | 7 | 41 | 4 | 21 | 8 | 40 | 24 | 33.3 |
| **Total** | 16 | 100 | 17 | 100 | 19 | 100 | 20 | 100 | 72 | 100 |

**4.2.3** Socio-economic status of respondents

The following chart shows that 20 of the total respondents were senior auditors and 19 were audit directors while 16 and 17 were finance director and accountant respectively. This shows that auditors were dominant participant in responding questions and the auditors’ internal audit and risk management can be clearly answered.

**Chart 1** Number of Respondents for the available level of position

|  |
| --- |
| As shown below in Table 2, the study requested the respondents to indicate their highest level of academic education. From the findings it was established that 96% of the respondent indicated their highest level as degree, and 4% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. It is also believed to provide more trustworthy information for this study. |

In the case of the level of educational background, all audit directors and senior auditors have bachelor’s degree (18, 95%) and (20, 100%) respectively. One Internal audit director has master’s degree and no diploma. In addition, from both categories there were no respondents who had other level of educations. These shows the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and risk assessment.

Whereas, most Finance directors and accountants have bachelor’s degree (14, 88%) and (17, 100%) respectively followed by master’s degree (2, 22 %) for Finance directors and there were no accountants who have master’s degree. There was no other level of educations and diploma from both categories. As that of auditors, the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and risk management.

**Table 2** Educational background

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Questions** | | **Response** | | | | | | | | | |
| Finance directors | | accountants | | Audit directors | | Senior auditors | | Total | |
| Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % |
| Educational  level | Diploma |  |  |  |  |  |  |  |  |  |  |
| Bachelor’s Degree | 14 | 88 | 17 | 100 | 18 | 95 | 20 | 100 | 69 | 96 |
| Master’s Degree | 2 | 22 | 0 | 0 | 1 | 5 | - | - | 3 | 4 |
| Total | 16 | 100 | 17 | 100 | 19 | 100 | 20 | 100 | 72 | 100 |

The study requested respondents to indicate the number of years they had served for. From the findings the study established that 25% of the respondents had worked for a period of more than 10 years, 51 % of the respondent indicated that they had worked for a period raging between 6 to 10 years and finally, 24% of the respondents had served for a period raging between 3 to 5 years.

**Table 3** Experience of respondents

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Years of experience | **Response** | | | | | | | | | |
| Finance directors | | accountants | | Audit directors | | Senior auditors | | Total | |
| Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % |
| 1-2 | - | - | - | - | - |  |  |  |  |  |
| 3-5 | - | - | 7 | 41 | 1 | 5 | 9 | 45 | 17 | 24 |
| 6-10 | 6 | 38 | 8 | 47 | 12 | 63 | 11 | 55 | 37 | 51 |
| More than 10 years | 10 | 62 | 2 | 12 | 6 | 32 | - | - | 18 | 25 |
| **Total** | **16** | **100** | **17** | **100** | **19** | **100** | **20** | **100** | **72** | **100** |

As shown in the figure above, the distribution of years of experience that the respondents had with working in the auditing profession was not fairly spread out among the categories. Out of 39 respondents of senior auditors and audit directors, 14 respondents (36% of total respondents) represent a group that covers 3 to 5 years of experience. This shows that the auditors are not sufficiently experienced. 59% of the respondents are found under the range of 6-10 years of experience in auditing. On the other hand, the group that is least represented is greater than 10 years of experience which involves 6 respondents under each range with a 15% of the total respondents.

As it is indicated above, almost half of the auditors have less than 10 years of experience working in the auditing profession. This shows that the audit respondents are as such well experienced working as an auditor, especially senior auditors, which may make less effective in risk management.

In case of processional certification, one finance director (6%) has ACCA Professional certification and the remaining (15, 94%) has no professional certification. All 39 respondents from internal audit have no any professional certification. These can imply that there is a lack of broad range of skills and expertise, and ongoing professional development which are crucial to the formation and maintenance of an effective internal audit activity in risk management. Due to lack of this processional certification, auditors may not miss-manage risk.

**Table 4** respondents’ professional certification

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Processional certification | **Response** | | | | | | | | | |
| Finance directors | | accountants | | Audit directors | | Senior auditors | | Total | |
| Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % |
| CIA |  |  |  |  |  |  |  |  |  |  |
| CPA |  |  | - | - | - | - | - | - | - | - |
| CMA |  |  | - | - | - | - | - | - | - | - |
| ACCA | 1 | 6 | - | - |  | - | - | - | 1 | 2 |
| No professional certification | 15 | 94 | 17 | 100 | 19 | 100 | 20 | 100 | 71 | 98 |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Total** | **16** | **100** | **17** | **100** | **19** | **100** | **20** | **100** | **72** | **100** |

**4.3** Risk assessment

Risk assessment is essential because it is central to the process of risk management responsibility of leadership, management entity. This is called to interpret risks and take a position on this is based on risk tolerance. By implementing a risk management system offers several advantages such as: ensuring the entity's objectives and implementation of an effective and proactive control system (Silvia & Abdelnaser, 2011)

Table 5 shows how participants responded to questions relating to risk assessment by internal audit. Responses to table 4 of question 1 indicated general disagree with the statement ‘the internal audit supervises and evaluates the effectiveness of risk management system and contributes to its improvement’ as shown by mean of 3.7. The results signified that respondents (47%) were disagreed that the internal audit supervises and evaluates the effectiveness of risk management system and contributes to its improvement. 28% of the respondents strongly disagreed on the subject matter, while 14% of them agree with this matter and 4% agree somewhat with the matter. Undoubtedly, risk assessment is the means to prevent irregularities and corruption. As per evidence from respondents without assessment of risk it is difficult to management risk. This is inconsistence with Ghita (2004) published IFAC auditing standard operation No. 2110 internal audit to establish a risk assessment methodology.

Struggle was also made to know if internal audit assists the management by identifying risk exposures of the public sector, the survey result in Table 5 of item 2 depicted that 58% of the respondent disagreed that internal audit assists the management by identifying risk exposures of the government and 27% of the respondents strongly disagree with this question. 2% of the respondents agree somewhat but the remaining respondents generally agreed on the matter. All these, pointed toward that Internal audit do not assists the management by identifying risk exposures of the budgetary public body. Based on this result it can be easily predicted that managing risk is a problem for auditors and result in failure of risk management effectiveness. Correct risk identification ensures risk management effectiveness (Tcankova, 2002). According to SBP (2003), a risk management framework encompasses the scope, the process/system/procedures to manage risks and the roles and responsibilities of the individual related to risk management. The effective risk management framework includes the risk management policies and procedures that cover risk identification, acceptance, measurement, monitoring, reporting and control.

The respondents were asked to give their opinion whether internal audit Provides assurance through written audit reports over the risk management process. The survey result which is presented above in Table 5 shows 47% of the respondents disagreed that budgetary public sectors internal audit Provides assurance through written audit reports over the risk management process. 14%, 4%, 28% and 6% of the respondents agreed, strongly agree, strongly disagreed, and somewhat agree in turn. The responses are contradictory that internal auditors will normally provide assurances on reliable and appropriate assessment of risks and reporting of risk and control status (IIA, 2009).

**Table 5 responses of** Risk assessment

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| No | Code | **Statement** | frequency | | | | |  |
| Strongly agree | agree | Somewhat agree | disagree | Strongly disagree | Mean |
|  |  | **Risk assessment** |  |  |  |  |  |  |
| 1 | R1 | The internal audit supervises and evaluates the effectiveness of risk management system and contributes to its improvement. | 4 | 10 | 4 | 34 | 20 | 3.7 |
| 2 | R2 | Internal audit assists the management by identifying risk exposures of the government. | 0 | 11 | 2 | 42 | 17 | 3.9 |
| 3 | R3 | internal audit Provides assurance through written audit reports over the risk management process. | 3 | 10 | 4 | 35 | 20 | 3.8 |
| 4 | R4 | Internal audit Facilitates the identification and evaluation of key risks. | 2 | 21 | 2 | 35 | 20 | 3.7 |
| 5 | R5 | Internal audit Provides consulting reports to improve or implement the risk management process. | 4 | 13 | 5 | 33 | 17 | 3.6 |
| 6 | R6 | Internal audit Provides assurance through written reports on the management of key risks. | 3 | 9 | 4 | 35 | 21 | 3.8 |

As referred from Table 5, about 49% of the respondents disagreed that internal audit Facilitates the identification and evaluation of key risks. and 28% of the respondents strongly disagreed. While small number (8% strongly agree and 14% agree) of respondents agreed on the issue. The result indicates that internal audit does not Facilitates the identification and evaluation of key risks. Risk evaluation is important for making sense in specific situations and provides adequate material for decision making (Vrijling, Hengel and Houben, 1995). This step is about deciding whether risks are acceptable or need treatment.

Regarding to question that internal audit Provides consulting reports to improve or implement the risk management process, respondents were asked to forward their opinion.46.5% and 24% of the respondents disagreed and strongly disagreed that internal audit Provides consulting reports to improve or implement the risk management process. Whereas 6%, 18%, and 7% strongly agreed, agreed, and agreed somewhat respectively. The assurance aspect of internal audit helps prevent and detect irregularities that result from mistakes or fraud while the consulting dimension helps enhance economy, efficiency and effectiveness (Al-Twaijry et al., 2003; Allegrini & D'Onza, 2003).

The results in table 5 of item 6 show that 47% of the respondents disagreed and 29% of respondents strongly disagreed that internal Audit Provides assurance through written reports on the management of key risks in public sectors. On the other hand, 7% of respondents have somewhat agreed, while there are 13% of respondents agreed and 4% of respondents strongly agreed with the statement. I see that the number of responders disagree that Internal Audit Provides assurance through written reports on the management of key risks. This is contradicting with IIA (2009) Internal auditors will normally provide assurances on reliable and appropriate assessment of risks and reporting of risk and control status.

Desalegn Getie khan, Ashfaq (2013) internal auditing can be interpreted as a technology employed and an assurance and advisory employed to ensure that risk is managed through proper conception and execution of business activities. The assurance aspect of internal audit helps prevent and detect irregularities that result from mistakes or fraud while the consulting dimension helps enhance economy, efficiency and effectiveness (Al-Twaijry et al., 2003; Allegrini & D'Onza, 2003). In contemporary organizations, internal auditing plays a crucial role in enhancing quality of corporate governance (Cohen, Krishnamoorthy, & Wright, 2004; Spira & Page, 2003) and providing assurance to boards of directors on managing risk (Sarens et al., 2009) thereby providing them with comfort in this regard (Carrington & Catasús, 2007; Sarens et al., 2009). The control context characterized by the separation of planning and execution of activities separated in time and space (Thompson, 1967) coupled with the antagonistic nature of social relations of capital and labor necessitate the use of internal auditing as a system of assurance within the organization to reduce risk exposures.

**4.4.** Competences of internal audit and risk management

The study sought to establish the level at which respondents agreed or disagreed with the following statements relating to competence of internal audit in risk management in Ethiopian budgetary public sectors. Fraud is difficult to detect for the reason that auditors have relatively infrequent experience of fraud in their career due to the low base-rate of fraud detection (Loebbecke, Eining, & Willingham, 1989), which results in the lack of opportunity for auditors to develop fraud detection expertise (Johnson, Grazioli & Jamal, 1993). This is true in Ethiopian budgetary public sectors where the survey result indicated that internal audit lacks adequate experience in managing risk. The result show that, 53% and 25% of the respondents disagreed and strongly disagreed respectively on the statement that Internal auditors possess adequate experience in managing risk.as shown by mean of 3.8. While, 15% of respondent agreed and 1% strongly agreed with this statement. 7 % of the respondents agree somewhat.

**Table 6** Competence of internal audit response

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| No | Code | Statements | frequency | | | | | Mean |
| Strongly agree | agree | Somewhat agree | disagree | Strongly disagree |
| II |  | **Competence** |  |  |  |  |  |  |
| 1 | I1 | Internal auditors possess adequate experience in managing risk. | 1 | 11 | 4 | 38 | 18 | 3.8 |
| 2 | I2 | Ongoing risk management training are not provided to internal auditor of your organization | 23 | 45 | 1 | 3 | 0 | 1.8 |
| 3 | I3 | The auditors in my organization are qualified to undertake audit function | 4 | 11 | 4 | 33 | 20 | 3.7 |
| 4 | I4 | Internal auditors are fully aware of provisions by government and laws relating to risk management | 4 | 9 | 3 | 37 | 19 | 3.8 |
| 5 | I5 | The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is fulfilled. | 4 | 6 | 2 | 39 | 21 | 3.9 |

The above tables 5 of item 2 point out that ongoing risk management training are not provided to internal auditor of various Ministries and universities as shown by mean of 1.8. The result indicates that many responders believe that ongoing risk management training are not provided to internal auditor of public sectors (63% agreed and 32 % strongly agreed) while small number of responders did not think that (4% disagreed) and 1% of them somewhat agree. Having sufficient training on errors and fraud (such as characteristics of fraud, technique used to commit fraud) is used to identify red flags indicating fraud may have been committed. This result is supported by the 2008 survey of internal audit practice in Malaysia where 20% of the respondents reported that none of their internal auditors had been trained for fraud prevention (IIAM, 2009). From this analysis it can be concluded that auditors who don’t take anti-fraud training regularly are challenged to detect fraud. This is in line with Bayou & Reinstein (2001), Dycus (2002); Grazioli, Jamal, & Johnson (2006) argument that it is difficult for internal auditors to detect Fraud due to lack of adequate training in fraud nature and investigative methodologies, and hence they have reduced capability in fraud detection. So, Training is vital in maintaining the effectiveness of the strategy for the detection of fraud and its general credibility.

In case of qualification (table 5 item number 3), most respondents (46%) disagreed as indicated by 3.7 mean that auditors in public organization are qualified to undertake audit function and 28% of the respondents strongly disagree with the case. The remaining respondents: 15% agreed, 6% strongly agreed and 4% somewhat agreed with this statement. Inadequate qualification leads auditors not to dig out errors and fraud its causes and difficult to serve management. The results of this finding are similar with Mihret & Yismaw (2007) that concluded in their study that IA office constantly face the problem of low technical staff proficiency which would limit it capacity to provide effective service to management.

Evidence from the study showed that internal auditors are not are fully aware of provisions by government and laws relating to risk management. 51% of the respondents disagreed that internal auditors are fully aware of provisions by government and laws relating to risk management, and 26% strongly disagree. 13% and 6% agree and strongly agree with the issue respectively. This implied that internal auditor has no adequate awareness in risk management. From this response, it is not difficult to understand that Lack of full awareness of risk management is result in miss-management of risk.

As can be seen from the Table 5 of item 5, almost all of the respondents strongly disagreed that the minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is fulfilled as shown by mean of 3.9. Accordingly, 29% of the respondents strongly disagree and 54% of the respondents agreed with the case while 8% agrees, 6 strongly disagree and 3% agree somewhat. Professional competency is unquestionable important for internal auditors to do their activities in efficient manner, for example to detect public resources from fraud and errors. This is supported by the fact that internal auditors should possess the professional and theoretical experience in the domain of the services to be audited (IIA, 2009). Similarly, Alzeban et al (2013) have mentioned that internal auditors should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties.

Moreover, the results of this finding are similar with Petrascu et al (2014) view that in their activities, internal auditors of public sectors must have enough knowledge in order to identify the signs of a possible fraud; be attentive of the cases that involve a risk of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an organization and take actions to eliminate or reduce the possibility of fraud occurrence.

As a conclusion, the results indicated auditors’ ability to manage risk is under the problem due to lack adequate competence. The evidence indicated that auditing activity is exercised with insufficient skill and experience, little professional certification, and with no training on Risk management in the selected budgetary public sectors. With all these fact, it can be underlined that internal auditors could not play significant role in risk management.

## Risk based audit plan

**Table 7:** Response on Statements of Risk based audit plan

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| No | Code | Statements | Frequency | | | | | Mean |
| Risk based audit plan | Strongly agree | Agree | Somewhat agree | disagree | Strongly disagree |
| 1 | FR1 | Internal Audit Developing and maintaining risk-based audit plans | 4 | 11 | 4 | 34 | 19 | 3.8 |
| 2 | FR2 | Risk assessment is done as part of audit planning | 5 | 10 | 4 | 34 | 19 | 3.7 |
| 3 | FR3 | Auditor examines subjects of highest risk to the achievement of the organization’s objectives. | 3 | 6 | 4 | 36 | 23 | 3.9 |
| 4 | FR4 | Internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing and need to be alert to the signs and possibilities of fraud within the organization. | 3 | 8 | 1 | 40 | 20 | 3.9 |
| 5 | FR5 | Internal audit activity’s plan of engagements is based on a documented risk assessment, undertaken at least annually | 2 | 11 | 1 | 38 | 20 | 3.8 |

Table 7 above revealed that Internal Audit Developing and maintaining risk-based audit plans. 47% of the respondents disagreed with the question, and 26% of them strongly disagree. But, 4 % and 17% of them strongly agree and agree respectively. This evidence shows that Internal Audit do not developing and maintaining risk-based audit plans. If such procedure is not designed by internal audit it is completely difficult to identify fraud and error and the researcher share the examination of Petraşcua et al (2014) that based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, will be discovered.

When I asked responders that risk assessment is done as part of audit planning, the result is presented that 47% of responders disagreed and 26% strongly disagreed with this statement. Although, I received 17% of responders agreed and 4% of responders strongly disagreed with this question. This response is supported by Deloitte (2016) internal auditor insights that dynamic internal audit planning can enable the function in its mission to assure, advice, and anticipate. It thus enables internal audit to be highly efficient; it also enables internal auditors to advise management on risks and to provide recommendations and mitigation steps; and it enables audit to anticipate emerging risks and opportunities.

Of the responses received to the survey of the last question, there are 51 % of 52 respondents disagreed and 8% strongly disagreed that auditor examines subjects of highest risk to the achievement of the organization’s objectives, while 27 % and 11% respondents agreed and strongly agreed. 3% of them agree somewhat. Controlling fraud and error is difficult without risk assessment at planning engagement and public resources is at risk. This result is inconsistent with I.I.A. standards (2000, 2010) Head of Internal Audit should conduct a risk-based planning to set priorities in line with the objectives of the organization. It is also inconsistent with Silvia & Abdelnaser (2011) that the planning process allows for sizing tasks, so that priorities are more clearly highlighted.

Regarding the question, internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing and need to be alert to the signs and possibilities of fraud within the organization, more than half of the respondents disagree with this issue. 57% of the total respondents disagree and 28% of them strongly disagree with the statement raised. In contrast 10% and 4% agree and strongly agree respectively. The remaining respondents somewhat agree. Silvia & Abdelna ser (2011) argue that A wrong or incomplete planning leads to a loss of risk-bearing activities. The practice requires careful selection of activities in high risk areas audited based on risk analysis associated with these activities.

Finally, the defendants’ response conclude that internal audit activity’s plan of engagements is not based on a documented risk assessment. 53% of the defendants agree and 28% strongly disagree with the question that internal audit activity’s plan of engagements is based on a documented risk assessment, undertaken at least annually. Conversely,15% and 3% agree and strongly disagree respectively on the statement. This is in line with Silvia & Abdelnaser (2011) annual planning the tasks to be achieved over the next year while taking into account the available budget and resources allocated under the plan annually.

Risk assessment is a critical component or an organization’s enterprise risk management program. Most respondents asserted that risk assessment is not conducted by budgetary public sectors’ internal audit. IA have no a mechanism for identifying which risks represent opportunities and which represent potential pitfalls. Their Audit plan do not consider risk assessment and lack designing of the procedures to identify the wrongdoers, level of the fraud, method used and source of error

# CHAPTER FIVE

## SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## Introduction

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also provided.

The purpose of this study is to examine the role of the internal audit in fraud detection in Ethiopian budgetary public sector. In recent times, there has been an increased interest in the internal audit function in the public sector to fight fraud.

This study was carried out in the 5 government universities and 15 Ministries. The data were collected through the use of questionnaires and the research paper used descriptive survey. One open end questions, 4 closed questions and 16 likes scale research questions were developed to guide the study. All questions were analyzed using percentages, frequency and means.

**5.1** Finding

Based on the review conducted on related literature, analysis and interpretation of data made, the followings are the major findings of the research work:

* The internal audit supervises and evaluates are not under taken to make the effectiveness of risk management system and contributes to its improvement.
* Internal audit fails to assist the management by identifying risk exposures of the government.
* Risk management process is not assured by internal audit.
* Internal audit does not facilitate the identification and evaluation of key risks.
* Internal audit does not provide assurance through written reports on the management of key risks.
* As a whole, internal auditor do not have adequate experience and they have no professional qualification in accounting and auditing field which help them to assess risk.
* Ongoing risk management training are not provided to internal auditor of public sectors
* Internal auditors are not fully aware of provisions by government and laws relating to risk management and they do not develop risk-based audit plans.
* Auditors do not examine subjects of highest risk to the achievement of the organization’s objectives.
* Auditor does not examine subjects of highest risk to the achievement of the organization’s objectives.

**5.2** Conclusion

This research deals with the perceived role of internal audit in risk management. Based on the summary of major findings of the study, the following conclusions are drawn.

The internal audit staffs of the budgetary public sectors lack the adequate competence of risk management which escalates the public sectors more exposed to intentional error and resources embezzlement. Internal audit teams do not have satisfactory knowledge, skill and qualification risk management awareness, training on risk management and other competencies which can have a transformative effect in risk management. Besides, almost all auditors have no professional certification which upgrades their knowledge of risk management mechanisms. From all these it can be concluded that if adequate competence is acquired, internal audit can manage risk at the required level.

On the whole, risk assessment which strengthens risk management is not undertaken by public sectors’ internal audit at satisfactory level. As a result, it is difficult to understand the risk that is unique to its public sectors, hard to identify gaps or weakness in control to mitigate those risks, and challenging to develop practical plan to reduce risk. Not using risk assessment made unable to identify irregularity committed and who may be in a position to commit it. The survey results also indicated that internal audit examines, and evaluates the adequacy of internal control and inform management in case of discovering weaknesses of internal control with the deficiencies of competence, risk based audit plan and risk assessment.

Internal auditor of public sectors does not exercise risk-based plan to perform audit function. The audit department should take into account the organization’s risk management framework, including risk appetite levels set by management for the different activities or parts of the organization.

Based on the findings of competence, risk based audit plan and risk assessment, it is concluded that internal audit is ineffective in risk management.

## 5.3 Recommendations

On the basis of the findings, the following recommendations are proposed for the consideration of public budgetary sectors, management of the public sectors and the internal auditors.

* The focus of internal audit and other monitoring and review functions should be to provide assurance on effectives of risk management
* The maturity of risk management should be evaluated and reported periodically.
* The study recommends that internal auditors should have training and sufficient knowledge on risk management to perform the chief role of risk management in governmental organization.
* An experienced accountant of high integrity, preferably a professional Accountant, should lead the internal audit department.
* As the research proved that competent internal audit staffs were the major determinants of IA role in managing risk in the public sector, the public sectors should recruit certified internal auditors or facilitating condition for certification of the staff.
* Risk assessment should be carried out to identify potential risk areas and events that public sectors needs to mitigate irregularity.
* There should be regular evaluation of control in order to determine their effectiveness in identifying risk and weaknesses.
* Generally, to play significant role in controlling and mitigating risk, internal audit should be competent, should practice risk assessment, and use risk based audit plan.

**APPENDIX**

**YARDSTICK INTERNATIONAL COLLEGE**

**SCHOOL OF POST GRADUATE STUDIES**

**MASTERS OF BUSINESS ADMINSTRATION**

**Title of the Research project: Internal Audit and risk management in Ethiopian Budgetary Public sectors**

Dear Respondents,

**A LETTER OF INTRODUCTION**

I am conducting a research project under the title “Internal Audit and risk management in Ethiopian Budgetary Public sectors”. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

I guarantee that all information supplied will be treated with the strictest confidence and used, only for the academic purpose for which it is intended. Thank you for your cooperation and valuable contribution towards the success of this research work.

Yours faithfully,

**Researcher’s Address:**

**ADOM MOGOS**

**Mobile: 0902031356**

**E-mail: edommoges189@gmail.com**

**Addis Ababa**

**Ethiopia**

**I. Purpose of this research**

The purpose of this survey is to collect data regarding Internal Audit and risk management in Ethiopian Budgetary Public sectors. Your participation will help the researcher to better understand how and to what extent Internal Audit paly important role in risk management.

**II. Extent of anonymity and confidentiality**

No personally identifiable information is being collected from and all information you provide will be combined with other respondents’ data, analyzed and reported in aggregate. Responses will be kept confidentially at all times, and used for academic purpose only.

**III. The personal profiles:**

**General Instruction**: Please indicate your choice by putting “√” mark in the box or supply the required information where, required, please specify and elaborate.

1. Please indicate your gender ¨M ¨F
2. What is your level of position title in your organization? -----------------------------------
3. What is your highest level of completed academic education?

¨ Diploma ¨ Bachelor’s degree ¨Masters’ degree

¨ PHD ¨ Other specify it--------------------

1. What is your highest level of professional certification?

¨ CIA ¨ CPA ¨ CMA ¨ ACCA

¨ No professional certification ¨ other specify it--------------------

1. How long have you worked in the organization?

¨ Less than 2 years ¨ 3 - 5 years

¨ 6-10 years ¨ More than 10 years

**IV General Question:**

**Internal audit**

1. Do you think that risk management of your organization is strong enough?

¨Yes ¨ No

1. Do you feel internal audit of your organization play critical role in ensuring effective risk management?

¨Yes ¨ No

1. Did internal auditors of your organization produced audit report regarding risk management weakness and possible recommendation?

¨Yes ¨ No

1. If your answer is yes, would you please mention some of the findings----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**Competence**

1. Do you think that internal auditors of your organization are competent enough to ensure effective risk management?

¨Yes ¨ No

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Please provide your level of agreement or disagreement with the following statements (please mark “**√**” for each line in the labeled columns) strongly disagree=5, disagree=4, neutral 3, agree=2 and strongly agree=1 | | | | | |
| No | Factors | 1 | 2 | 3 | 4 | 5 |
| I | **Risk assessment** |  |  |  |  |  |
| 1 | The internal audit supervises and evaluates the effectiveness of risk management system and contributes to its improvement. |  |  |  |  |  |
| 2 | Internal audit assists the management by identifying risk exposures of the government. |  |  |  |  |  |
| 3 | Internal audit Provides assurance through written audit reports over the risk management process. |  |  |  |  |  |
| 4 | Internal audit Facilitates the identification and evaluation of key risks. |  |  |  |  |  |
| 5 | Internal audit Provides consulting reports to improve or implement the risk management process. |  |  |  |  |  |
| 6 | Internal audit Provides assurance through written reports on the management of key risks. |  |  |  |  |  |
| II | **Risk based audit plan** |  |  |  |  |  |
| 1 | Internal Audit Developing and maintaining risk-based audit plans |  |  |  |  |  |
| 2 | Risk assessment is done as part of audit planning |  |  |  |  |  |
| 3 | Auditor examines subjects of highest risk to the achievement of the organization’s objectives. |  |  |  |  |  |
| 4 | Internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing and need to be alert to the signs and possibilities of fraud within the organization. |  |  |  |  |  |
| 5 | Internal audit activity’s plan of engagements is based on a documented risk assessment, undertaken at least annually |  |  |  |  |  |
| **III** | **Competent** |  |  |  |  |  |
| 1 | Internal auditors possess adequate experience in managing risk. |  |  |  |  |  |
| 2 | Ongoing risk management training are not provided to internal auditor of your organization |  |  |  |  |  |
| 3 | The auditors in my organization are qualified to undertake audit function |  |  |  |  |  |
| 4 | Internal auditors are fully aware of provisions by government and laws relating to risk management |  |  |  |  |  |
| 5 | The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled. |  |  |  |  |  |