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Value-added role of internal audit: an Ethiopian case study

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Abstract

Purpose– The purpose of this paper is to draw inferences – from the results of an Ethiopian public sector corporation (for-profit) case study – on how the attributes of a value-adding internal audit department would vary among organisations.

Design/methodology/approach– The case study strategy is employed. The internal audit function of a public sector corporation was examined using an analytical framework derived from the literature. Research evidence was gathered distributing questionnaires to managers and internal auditors, conducting a semi-structured interview with the internal audit department manager, and reviewing documents.

Findings– The results highlight that traditional/compliance audit is dominant in the organisation studied as contrasted with value-added auditing. The paper concludes that goals and strategies pursued and the level of risk faced by organisations to which internal audit provides service, appear to shape the attributes of a value-adding internal audit department. The study also demonstrates that the quality of strategic planning for, and marketing of, internal audit would influence the extent to which an appropriate value-added profile is attained in a particular context.

Research limitations/implications– Since a single unit of analysis is examined, universal generalisability of the findings cannot be claimed. Also, the research design assumed that the unit of analysis investigated falls within the scope of internal audit departments considered in the literature that served as a basis to develop the analytical framework and data collection instruments.

Originality/value– The paper is expected to inspire conclusive follow-on research on the role of internal audit in Ethiopia, or other countries with similar settings.
Introduction
As a result of changes in organizational needs, technology and complexity of organisations' activities and systems, the nature of the services sought from the internal auditors has been transforming over the years from an emphasis on traditional/compliance audit where independence has been the core paradigm, to a value-adding role where partnering with management is accorded greater significance (Abdolmohammadi et al., 2006; Cooper et al., 2006; Allegrini et al., 2006). The internal audit literature (Stern, 1994; Roth, 2000, 2002, 2003; Gupta, 2001; Naggy and Cenker, 2002; Gramling et al., 2004; Abdolmohammadi et al., 2006; Cooper et al., 2006; Hass et al., 2006; Yee et al., 2007) is also focusing on this evolving role, which is considered of paramount importance to achievement of organizational goals (Hass et al., 2006; Roth, 2003). Despite indicating that value-adding internal audit departments need to possess varying attributes based on the situational context (Roth, 2002), the literature is as yet not complete enough to answer the questions of if, how, and why these attributes are associated with a pattern of organisational contexts and/or situations. Utilizing an analytical framework from the extant literature, this paper examines the role of internal audit in a large Ethiopian public enterprise operating as a sole telecommunication service provider. The study aims to draw inferences regarding how the attributes of value-adding internal audit departments would vary as contexts and/or situations do change.

The remainder of the paper is organized as follows. The next section reviews the related literature and provides the focus of the study. The third section presents a brief backdrop of the organization selected for the study and its internal audit function. The fourth section justifies the research strategy and describes the research methods, followed by the fifth section, which reports and discusses results of the study. The sixth section summarizes the paper, presents major findings of the study, and forwards the ensuing conclusions. The paper then concludes by limitations of the study and future research directions.

Literature review and focus of the study
The literature reveals the importance of the role that internal audit plays in organisations. Research using agency theory (Xiangdong, 1997; Adams, 1994) and transaction cost theory (Sprakman, 1997) demonstrate internal audit's role in the management and governance of organisations. The literature (Dittenhofer, 2001) also discusses internal audit effectiveness and identifies basic tenets for its achievement. Sawyer (1995) and van Gansberghe (2005) highlight the importance of enhancing internal audit quality to achieve audit effectiveness. Similarly, Ziegenfus (2000) points out that audit effectiveness could be achieved through internal audit's evaluation of its performance and continual improvement of its services. The concept of internal audit effectiveness possesses direct relevance to value-added internal audit, because the former serves as a measure of the latter (Roth, 2002).

Internal audit is undergoing a paradigm shift from traditional/compliance audit to value-added internal audit (Stern, 1994; Naggy and Cenker, 2002; Gramling et al., 2004; Cooper et al., 2006; Bou-Raad, 2000; Roth, 2002; Yee et al., 2007). Stern (1994) highlights that the value-added audit paradigm is gaining in importance and identified 15 ways to attain a value-adding internal audit department[2]. Similarly, Roth (2000) developed a profile of a value-adding internal audit function based on a survey of best practices of world-class internal audit departments[3]. Roth (2000, 2002, 2003) explains that although every organization is different, all value-adding audit departments tend to share similar characteristics. Likewise, Gupta (2001) identified eight factors[4] that help make up a value-adding internal audit function. In sum, from the literature hitherto, one can observe that adding value needs to be the focal point of the very existence of internal audit.
The common thread in the literature that focuses on value-added internal audit is the suggestion that value-adding departments tend to share similar attributes. And some works (Roth, 2000, 2002, 2003) underscore the contingency of those attributes upon factors specific to each individual organisation. Identifying value-adding internal audit profile for each individual organisation would enable one to establish the most value-adding internal audit departments – in view of the idiosyncrasies of specific organisations. However, an arguably better approach from the perspective of theory development would be to discern a pattern of value-adding internal audit profiles into which specific organisations would be categorised. This approach possibly enables greater understanding of internal audit's role and a better prediction of the development directions of the value-added internal audit and of the internal audit profession.

Hass et al. (2006), in a review of the American literature, indicate that the external factors leading to changes in organisations resulted in the need for expanded role of internal audit. Generally, Hass et al. (2006) underscore that the internal audit function is moving away from confrontational, detection-focused services to a prevention-focused service through a partnering approach with management, and away from a controls approach to a risk-based approach with a focus on consulting services. However, Hass et al. (2006) point out that the increased regulatory requirements of the Sarbanes-Oxley act (2002) led to internal audit's greater focus on compliance works than the case prior to the issuance of the act. Yet, it is worth noting that the focus on compliance might be value-adding (Roth, 2002), depending upon the context. This point would lead to a claim that in organisations where regulatory requirements are stringent, compliance audits arguably are more value-adding than the consulting emphasis of internal audit.

Empirical research on the focus of contemporary internal audit reveals mixed results. Al-Twajiry et al. (2003) documented that traditional audit dominated in Saudi Arabian companies. A survey of private companies in Belgium (2006) cited in Allegrini et al. (2006) also reported similar results. By contrast, studies by Roth (2000, 2002, 2003), Gupta (2001) and Yee et al. (2007) indicate the increasing prevalence of value-added internal auditing with a consulting approach. The variation in empirical results, this paper argues, leads to a claim that despite the general trend of internal audit's shift toward the partnering approach, the differences in internal audit service focus might be explained by contextual factors prevalent in the environments on which empirical evidences were based – while both approaches might be value-adding in their respective settings. Nonetheless, the studies in which dominance of traditional internal audit have been documented did not include evaluations of whether compliance audit would be value-adding in the contexts studied. This paper argues for the need to closely investigate internal audit practices, to glean a pattern of contexts and situations that would shape the attributes of a value-adding internal audit function.

This paper follows on from Mihret and Yismaw's (2007) case study, which pointed out the limited effectiveness of internal audit in a public sector organisation. As internal audit effectiveness is a measure of value-added (Roth, 2002), we argue that, the lower effectiveness of internal audit might be an indication of low value-added. The focus of the present study evolved with the argument that since organizational practices vary on account of the variations in organizational goals and institutional, legal and technological settings (Scott, 1987), the attributes of a value-adding internal audit department may be determined by the context in which it operates. Arena et al. (2006) studied the role of internal audit in six Italian organisations and concluded that the role of internal audit is explained by the nature of
institutional pressures that apply to the organizations. Likewise, Goodwin (2004) revealed the existence of differences in some features of internal audit in the public and private sectors in Australia and New Zealand. In a similar way, we further argue that as a result of the differences between contexts in which the public sector organisations and public enterprises (for-profit government organisations) operate, there may be differences in the attributes of value-adding internal audit departments in the two sectors.

By adapting the analytical framework from the literature, the present study attempts to illustrate variables that influence the attributes of a value-adding internal audit function. The paper addresses the following research question (RQ) and the related research issues (RI):

**RQ1.** How do the attributes of a value-adding internal audit function associate with varying contexts and situations?

**RI1.** Do organisational goals influence the required attributes of a value-adding internal audit?

**RI2.** Does the type of strategy followed by an organisation determine the required attributes of a value-adding internal audit?

**RI3.** Does the level of risk that organisations face shape the attributes of a value-adding internal audit?

**RI4.** Which activities of the internal audit department highly contribute to its capability to develop a value-adding profile?

**The organization studied and its internal audit function**

The paper is based on a case study of a large government-owned corporation (hereafter referred to as the corporation) – the second largest public enterprise in Ethiopia – operating as the sole provider of telecommunication services in the country[5] since 1894. The corporation promotes the mission of supporting the development strategy of the country and its financial position stood at over Ethiopian Birr 8.2 billion in total assets as of June 30, 2006. Its turnover was over Birr 1.8 billion (1 Ethiopian Birr approximates to US$0.1107) for the year then ended. As of February 2007, the corporation employed over 11,000 staff.

The internal audit function of the corporation was established in 1953, under the finance division. Hence, having been in operation for about 55 years, internal audit is well established in the corporation. For example, this establishment compares favourably to internal audit's average age of less than five years in more than half of the private companies surveyed in Belgium, cited in Allegriniet al. (2006). To ensure independence, internal audit was made a separate office reporting to the chief executive officer (CEO) in 1961. In 1968, it was upgraded to the “Internal Audit Branch” status, maintaining its reporting line to the CEO.

Following a restructuring of the corporation in 1997, the internal audit function was split into financial audit and management audit divisions – both reporting to the CEO. In 2003, the internal audit department was formed and the two divisions report to the internal audit department manager. Since then internal audit has been periodically reporting its performance to the board of directors of the corporation, whilst maintaining the administrative reporting responsibility to the CEO (see Figure 1 for organisational structure). As of February 2007, 40 staff were employed as internal auditors in the corporation.
Research strategy and methods

The case study strategy is chosen for the study because it enables the use of multiple data sources so as to cross-validate results through triangulation (Benbasat et al., 1987; Soy, 1997; Jick, 1979). The lack of research on the topic in the context used for the present study (Benbasat et al., 1987) and the fact that arguably the phenomenon studied cannot be studied separately from the context (Yin, 1981, 1994) justify the choice of the case research strategy. A single-case, holistic research design is used where the internal audit department of the corporation was investigated as a single unit of analysis. This design is chosen because there exists a theoretical framework (notably that of Roth, 2000, 2002, 2003; Gupta, 2001) for the concepts examined, and the aim of the research was to contribute to extending the current understanding of the concepts of interest (Yin, 1994). Further, the paper argues that it is appropriate to see value-added internal audit within a defined context, which makes it necessary to study internal audit's value-added role holistically and contextually. This need makes the case study strategy an ideal choice in developing a “typology” of value-adding internal audit profiles in future research.

Despite the study of a single unit of analysis, the results of the study are claimed to achieve a high level of external validity because first, all public enterprises in Ethiopia operate within the same legal and governance setting as defined by the Public Enterprise Proclamation No. 25/1992 (Government of Ethiopia, 1992); and second, the aim of the study is to make theoretical inferences – from the results of the study – that are suitable for further empirical investigation in any other context.

Primary data were collected using questionnaires distributed to two groups of respondents (i.e. auditors and managers) and through interview with the internal audit department manager. A review of internal audit reports, and policy and procedural manuals served as sources of secondary data.

The questionnaires were subjected to review by senior members of the internal audit department in the corporation to ensure clarity of meaning and understandability of questions, so as to enhance the internal validity of the instruments. The manager respondents were chosen through purposive sampling from all the three levels of management in all departments at the headquarters, regional and zone offices of the corporation[6]. All internal auditors were included in the survey. Questionnaires were sent to 40 auditors and 76 managers, i.e. a total of 116 individuals participated as respondents. Questions were presented in the form of affirmative statements, relating to the concepts on value-added internal audit, in such a way as to enable measurement of the respondent's opinions (see Appendix for list of questions). The respondents were asked to indicate their level of agreement on a five-point Likert-type scale with the following ratings: strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (DA; or 2) and strongly disagree (SD; or 1). The numbers were indicated in the questionnaires to provide a feel of interval scale measurement and to generate data suitable for quantitative analysis. To elicit additional information, the respondents were requested to provide open-ended responses if they had opinions which they felt the researchers would find useful. The data collected via questionnaires were analysed with descriptive statistics using statistical package for social scientists.

To enhance and supplement the results of questionnaires, a semi-structured interview was conducted with the internal audit department manager; and organisational policy and procedural manuals were reviewed. In addition, 12 internal audit reports – two each from two
regional offices, two zone offices, and two divisions – were examined. Because access was not possible to recent audit reports on account of confidentiality issues, those of the years 2001 and 2003 were used. Similar year reports were taken for each auditee included in the sample to ensure that data were free of serious anomalies. Data collected from the interview and review of documents were interpreted qualitatively.

The analytical framework for the study is adapted from the literature (Roth, 2000, 2002, 2003; Gupta, 2001), which was used in developing the data collection instruments to operationalise the research methodology. The questions were organized using Roth's (2000) framework, the eight parameters of which were reduced to seven by combining the two related parameters, i.e. audit services and other consulting and assurance services.

Roth's (2000) framework is chosen because the study was based upon best practice of world-class internal audit departments. Also, the organisations in Roth's study represented a wide variety of sectors (i.e. manufacturing, technology, financial services, government, and retail). This broad domain of traits ensures high-construct validity of the identified parameters for evaluating the internal audit function in the corporation. To minimise errors and biases through enhanced reliability of procedures, a case study protocol was developed (Yin, 1994). The protocol served as a guide for collection and analysis of the case study evidence, and for drawing the theoretical inferences from the results.

The study applies two approaches in developing the inferences from the results:

1. interpreting the results of the case study in light of the attributes of the context of the unit of analysis; and

2. interpreting the results of the case study in view of the conclusion in Mihret and Yismaw (2007), putting the differences in the contexts of the units of analysis in the two studies into perspective.

Although Mihret and Yismaw's conclusion focused on internal audit effectiveness, it was considered in this study because we argue, in line with Roth (2002), that internal audit effectiveness and value-added internal audit are positively associated.

Results and discussion
In this section, the results of the case study are presented in two sub-sections: questionnaire results, and interview and document review results.

Questionnaire results
The questionnaire results are presented along the framework of attributes of a value-adding internal audit department developed by Roth (2000). A total of 40 and 76 questionnaires were sent to internal auditor and manager respondents, respectively. From the auditor respondents, 28 usable questionnaires were obtained (70 percent response rate) and 39 usable questionnaires were received from manager respondents, which constituted a 51.3 percent response rate. Descriptive measures of responses are presented in Table I.
Departmental organization

Both auditors and managers disagreed to the two statements under departmental organization. Auditors mean responses for both Question 1 (Q1) and Question 2 (Q2) was 3.12 and the standard deviations were 1.033 and 1.071, respectively, (see Appendix for a list of the questions). The managers' mean responses for the two questions were 2.94 and 3.03, respectively, and the standard deviations were 1.059 and 1.066 in that order. The large standard deviations for both groups suggest that there existed variability in ratings of the respondents. Greater amount of data were obtained on this parameter from interviews and the organisational structure. Detailed discussion of the results is provided in a later section.

Staffing and work environment

Staffing

The study revealed that 20 (71.4 percent) of the auditor respondents had a first degree and 8 (28.6 percent) of them held college diploma qualifications. The majority of respondents were accounting graduates (n=19, 67.90 percent), which is followed by engineering (n=5, 17.8 percent) and a management degree (n=3, 10.7 percent) qualifications. One respondent had an information technology background. A majority of auditors (n=19, 67.9 percent) served for less than three years as an internal auditor in the corporation. Some respondents (n=7, 25 percent) had internal audit experience in other organisations prior to joining the corporation. Most auditors (n=17, 60.70 percent of the respondents) were recent university or college graduates holding junior auditor posts. The profile of the corporation's internal audit in the information technology and engineering areas is low.

Q3-Q9 in the questionnaires distributed to auditors and questions 3-5 in those provided to the managers, relate to the staffing construct. The auditors' group mean responses were less than 3.00 in five of the questions; and for the management group, two out of three of the questions had mean responses less than 3.00 – indicating that both groups of respondents viewed the auditors as not possessing high level of knowledge. As one auditor respondent commented:

To implement the audit, the auditors' diploma or degree is not sufficient; getting well trained auditors with strongly built skills is the urgent need of the corporation. Only then can the auditors play the desired role. Investing in training has a paramount importance. Therefore, the corporation should have sound budget to train its auditors, be it in-house or external as necessary.

The above comment and the responses to the questionnaires indicate that the level of training given to auditors is low. The contribution of the internal audit manual for training via enhancement of auditors' technical and professional knowledge was assessed in Q6 and Q7 in the questionnaires distributed to auditors. Mean responses to these questions were 3.64 and 3.29, respectively, suggesting that the manual contributes positively toward staff training. The auditors' mean responses for Q8 and Q9 were less than 3.00, which indicates a low level of auditors' knowledge. The managers' responses to questions on staffing, i.e. Q3-Q5, also revealed results consistent with those of the auditors – mean responses of less than 3.00 except for Q5 (Table I).

Recent Common Body of Knowledge (CBOK) studies on internal audit (Abdolmohammadi et al., 2006; Hass et al., 2006; Burnaby et al., 2006) and studies on the knowledge, skills and attitudes for the accounting profession (Palmer et al., 2004) suggest
that internal auditors need to acquire a broad range of skills – including communication, interpersonal, problem-solving – and knowledge of general business, and information technology in addition to the technical knowledge of auditing. The studies also point out that personal attitudes to embrace the positive change in the profession are also considered essential. This point would lead us to discern that the auditors need to gain adequate professional knowledge, and their skills should be continuously honed via training. But in the corporation selected for the present study, the training aspect seems to be less than what would have been expected, which reduces the auditors' competency and the value-adding potential of internal audit. The corporation is in a sector where information technology is an integral part of the business. This characteristic makes information technology skills essential to build a value-added internal audit profile. Hass et al. (2006) indicate that application of information technology knowledge and skills helps enhance efficient utilization of internal audit resources and suggests training internal auditors for computer skills to ensure their information technology expertise.

Work environment

Q10 and Q11 in the questionnaires distributed to auditors and Q6 and Q7 in those provided to managers relate to the work environment parameter. The mean responses to those questions in both groups were less than 3.00 and the standard deviations were also less than 1.00 except in Q11, for auditors. The questionnaire responses revealed that the environment is not as attractive as might be desired to attain a value-adding internal audit department. As an auditor respondent commented:

The corporation at large, and particularly the internal audit department, should make an effort to enhance the commitment of auditors to their profession.

The implication of the above results is that due to a less well attractive work environment, attracting employees from other functional areas of the corporation to the internal audit function is difficult. The responses from the managers also supported this result. Consequently, the internal audit department is facing a shortage of experienced auditors, with technical and professional skills and knowledge that arguably is a prerequisite for achieving a value-adding profile. This corroborates with the low tenure of staff highlighted in the preceding sub-section.

Risk assessment

The mean responses of the auditors to the six questions under risk assessment were generally disagreement or strong disagreement – four out of the six questions obtained mean responses of less than 3.00 for auditors and all the questions had mean responses of less than 3.00 for managers. The standard deviations of the responses were all below 1.00, which indicates that the respondents' perceptions were close to one another. This result implies a low level of communication between the internal audit function and the management of the corporation upon internal audit plan preparation. This might cause incomplete risk analysis, limit the participation of internal audit in the process of risk management, and undermine the value-adding role of internal audit.

Assessing the effectiveness of risk management is one of the basic tenets of the definition of the internal audit function (Hass et al., 2006). Goodwin and Kent (2006) documented a strong association between internal audit use and organisational 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 et al. (2006), internal audit adds value by supporting the execution of strategy. The importance afforded in the literature to risk assessment might arguably establish a claim that strategic planning by internal audit, which necessitates alignment of the goals of the internal audit department with those of the organisation, would positively influence value-adding capability.

**Internal audit services**

A majority of respondents indicated their disagreement to the questions provided on the overall audit services rendered in the corporation. The mean responses of the auditors to the questions implying high value-added internal audit services were below 3.00 and to those questions which referred to traditional/compliance audits – Q21, Q28 and Q29 – were above 3.00 (Table I, Panel A). Also, Panel B shows that managers' responses corresponded to those of auditors. Q17, Q23 and Q24 yielded mean responses of greater than 3.00 – which confirmed that the responses to statements indicating traditional/compliance audit were skewed to agreement (Table I, Panel B). The mean response of greater than 3.00 for Q15 – in questionnaires distributed to managers – which represents a concept for a value-added internal audit service was considered an outlier.

To the question: “Overall, the internal audit function of the corporation provides value-adding audit services”, i.e. Q37 for auditors and Q32 for managers, the mean responses were 2.70 and 2.74, respectively. This suggests that in the views of both groups of respondents, the internal audit function exhibited a low value-adding profile. This result may in part be occasioned by a high engagement with compliance auditing. Auditors' and managers' mean responses to “compliance auditing shares most of the auditors' time in their audit activity”, i.e. Q21 and Q17, respectively, were 3.81 and 3.62 in that order. These results indicated that in the perception of the respondents, compliance audit took much of the internal auditors' time, and compliance audit was not considered value-adding in the circumstances.

**Performance measures**

The results of the questionnaires distributed to auditors, indicated a mean response of 3.43 for Q38, which would signify traditional/compliance audit. The mean responses to all the other questions that would suggest a value-adding profile, i.e. Q39-Q41 were less than 3.0. The managers' responses to the questions under this parameter were all below 3.00 (Table I). These results would suggest that the opinions of both the auditor and manager respondents conform to the concept that the internal audit function's performance measures were more appropriate for a traditional/compliance audit focus than to a value-adding audit department.

**Marketing internal audit services**

Q42-Q44 in the questionnaires distributed to auditors and Q36-Q38 in those provided to managers referred to the marketing parameter. The mean responses of both groups of respondents were below 3.00, suggesting that the internal audit function did not make enough marketing of its services. Without establishing itself as a partner to management and marketing its current and potential service, it would be difficult for internal audit to maintain a value-adding profile and extend audit coverage to all functional areas of the corporation.

Under the value-adding paradigm, proper marketing of internal audit should start with a broader definition of customers (Ewert, 1997), and a wide range of literature stresses the importance of marketing internal audit services to develop a value-adding internal audit
department. Proper marketing of internal audit services would help widen the scope of internal audit coverage in the audit universe. Since the internal audit staff interface with the audit customers, internal audit's success in the value-adding paradigm would partly rest on its staff capability to promote internal audit services, which in turn requires investing in internal audit staff skills.

**Reinventing internal audit**

The auditors' responses to the questions regarding assistance of internal audit to the management on the evaluation of new technology was disagreement – mean response of auditors was 2.32 and that of managers was 2.79. As an auditor respondent said:

*As [the corporation is] provider of up to date communication services to the public, the modern technology which is being employed by the corporation needs very skilled and creative auditors who are versatile in their thinking and can launch audit systems and techniques to the newly employed technology.*

And another from the manager respondents revealed:

*To tell the fact from what I have observed the audit in the corporation is not doing its best because the majority of activities in the corporation are technical which are beyond the knowledge of the existing auditors. As a result, the management is not sensitive to the auditors' reports.*

These results indicate that technical areas (i.e. telecom engineering and information technology functions) of the corporation were not adequately covered by internal audit, which evidences that internal audit is not continuously reinventing itself to keep pace with the demands of its customers. The mean responses of the questionnaires provided to auditors (Q45-Q50) and those to managers (Q39-Q41), referring to the reinvention parameter were all below 3.0. These results were closely germane to the results on the staffing parameter, whereby the skillset of the internal audit staff was found to be limited. These results, in view of the technology-intensive nature of the corporation, would suggest low value-adding capacity of internal audit.

Some managers of technical areas preferred not to complete the questionnaire, on account of limited exposure to activities of the internal audit function. And a technical manager, whose response was classified among the non-useable, commented:

*The questionnaire should have been filled by other offices of the corporation which have a direct relationship with the audit department. I do not know the exact activities of internal audit department.*

This comment suggests that internal audit is not working in close partnership with, and in support of, the management – at least in some areas. Internal audit needs to understand the customers' needs as continuously change and refocus its activities to customers' needs if it is to add value. For Roth (2003), the internal audit function should deemphasize compliance audit and reinvent itself continuously so as to add value. In the corporation studied, continuous application of new technology makes internal audit's continuous reinvention of itself a necessity. Given the nature of the environment to which the corporation belongs, the auditors' support in technical areas would arguably be more paramount than areas where the business practice remains relatively stable. Involvement of internal audit in business process
reengineering is recognised in the existing literature (Gupta, 2001; Lindow and Race, 2002) as an opportunity for a value-adding service. Gupta (2001) argues that the internal audit function should align its goals and objectives to the overall change integration framework of the organisation. The outsourcing literature provides additional support for the need to enhance value-adding capacity of internal audit in arguing that internal audit outsourcing is not a viable option when the nature of the business is specialised (Carey et al., 2006; Hass et al., 2006; Rittenberg and Covaleski, 2001). Because the corporation's business is specialised in the context of Ethiopia, enhancing the capacity of the internal audit would be a more viable option to obtain a value-added internal audit services than outsourcing.

Interview and document review results
In what follows, the results of the interview and review of documents is presented. A semi-structured interview was conducted with the internal audit department manager, using seven open-ended questions – one question for each category of parameters. The documents reviewed included 12 audit reports and policy and procedure manuals.

Departmental organization
The organizational status of internal audit function in the corporation has been at a higher level since 1961 – reporting to the CEO – and since 2003 it has a periodic reporting requirement to the board of directors. The internal audit department manager presents a quarterly report on internal audit function's performance, to the board of directors. This may enhance the independence of internal audit. However, audit reports are addressed to the executive officer of the corporation – and copies are not provided to the board of directors. This makes the internal audit function administratively accountable to the CEO with a performance reporting requirement to the Board.

The corporation is currently structured into six strategic business units (SBUs). One of the SBUs, the Fixed Line Service, operates facilities in eight regional offices throughout Ethiopia out of Addis Ababa (location of headquarters) and its surrounding as well as six facility offices (zone offices) in and around Addis Ababa. Since recently, at least one internal auditor is permanently assigned in each regional and zone office of the Fixed Line SBU. Despite this recent move to restructure the internal audit function along SBUs, the other SBUs have no auditors assigned permanently. Nonetheless, the auditors assigned to the referred SBU offices report to the respective zone/regional managers and they only provide copies of audit reports to the internal audit department at headquarters.

The importance of proper organisation along with appropriate staffing is considered in the literature (Harrington, 2004) as an essential requirement for a value-adding internal audit function. Whilst the attempt to restructure the internal audit function indicates internal audit's flexibly to meet management's expectations, accountability of auditors to zone/regional managers would create a concern as regards objectivity of internal auditors, which arguably should not be compromised as a result of following the partnering paradigm (Hass et al., 2006; Gramling and Myers, 2006). This point could also be discerned from the Institute of Internal Auditors' (2004) definition of internal auditing in which value-adding and independence are both stressed:

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

The literature (Roth, 2000) suggests the importance of internal organisation of internal audit departments along SBU's such that particular units of internal audit would be assigned to specific auditees. Institut Français de l'Audit et du Contrôle Internes (2005), cited in Allegrini et al. (2006) indicates that internal audit ensures its independence and objectivity via double reporting to the management and the audit committee. In addition to the periodic performance reporting to the board, providing copies of audit reports to the board would improve the attention provided to audit reports in the corporation.

Staffing and work environment

Staffing

The interview evidence indicated that as a result of high-staff turnover, the average tenure of auditors is low. Auditors leave the department via transfers to other departments in the corporation; on the other hand, transfers into the internal audit department are not significant. This results in more new recruits in the department, which adversely impacts the value-adding potential of internal audit. In addition, the number of staff is not sufficient, given the large size and complexity of the corporation's operations. Until quite recently, almost all auditors had an accounting educational background. As a consequence, internal audit activities were mostly financial audit. Operational auditing was limited to marketing and supplies, and procurement departments. Technical areas as well as personnel administration could not be audited due to a lack of qualified auditors. This result supplements that of questionnaire responses on staff profile. As a recent development, internal audit deployed auditors with engineering, management and information technology backgrounds, which suggests a potential to widen the scope of internal audit services.

Effort to ensure provision of appropriate training, such as for certification as internal auditors, is not undertaken in a planned and continuous manner. There is no mechanism to ensure participation of auditors in training on the corporation's design of new systems, improvement of existing ones, and introduction of new services. This denotes that internal audit's value-adding role through involvement in development and revision of systems is limited, in view of what the literature (Lindow and Race, 2002) proposes. Since the nature of the business is complex and dynamic, providing continuous and focused training would be essential to attain value-adding internal audit.

Work environment

An attempt was made in the interview and documents review stage of the study to consider Mihret and Yismaw's (2007) factors deemed important for internal audit effectiveness. In particular, the organisational setting in which internal audit operates and the management support in providing proper attention to audit findings were considered. The document review and interview results reveal that the entire operation of the corporation is guided by a set of policy and procedures provided through manuals. The manuals include: personnel regulations, subscription and rates regulation, accounting instructions, and purchasing and stores procedures. The manuals are regularly updated as circumstances dictated or situations demanded. In addition, circulars are issued frequently to convey directives of the management regarding employee's transfer, promotion, appointment, delegation of authority;, etc. assignment of authority and responsibility to functional units;
and fixing and issuing of rates and tariffs. Numerous forms and control documents that guide each routine work are also contained in the manuals.

In a good internal audit environment, internal audit reports gain due attention of management (Walker, 1996; Mihret and Yismaw, 2007), and reasonable audit recommendations are implemented. A total of 12 audit reports – two each from six auditees – for the years 2001 and 2003 were reviewed to assess audit effectiveness, using the rate of implementation of audit recommendations as a proxy. To make this assessment, major audit findings and recommendations of 2001 repeated in 2003 were identified (see summary in Table II). The results indicate maximum and minimum effectiveness of 66.67 and 28.57 percent, respectively, in those auditees considered in the study. The results suggest that there is some room for improvement of audit effectiveness and thus enhance value-added by internal audit. Of course, this inference is also fraught with the weakness in the assumption that the recommendations not repeated in subsequent years' audit reports suggest implementation of earlier audit recommendations. Generally, whichever paradigm applies, internal audit's recommendations need to be afforded adequate attention.

Compared to Mihret and Yismaw's (2007) study results, internal audit effectiveness in the corporation is rated favourably. As audit effectiveness is used as a proxy for measuring value-added internal audit, the relatively better audit effectiveness observed in the corporation may suggest that context of internal audit in the corporation might be positively associated with the attributes of a value-adding internal audit.

**Risk assessment**

The corporation is expanding its operations via huge investments in projects. The expansion strategy and the resulting investments in projects would imply that internal audit's role in risk management would be a key value-adding activity. By attuning its strategies to the mission and vision of the corporation, internal audit could play a significant value-adding role through its contribution in the management of risk.

Internal audit's role in management of risk, whilst at the same time guarding against the pitfall of reduced objectivity, is vital (Hirte and Morgan, 1995; Lindow and Race, 2002) in meeting the objectives of internal audit under the value-adding internal audit paradigm. As shortly alluded to in the questionnaire results section, we argue, that the quality of internal audit's strategic planning effort would determine a department's contribution in risk management. The interview result revealed that – similar to Mihret and Yismaw's (2007)findings – the internal audit department of the corporation does not prepare strategic plans. Mainly, the audit cycle approach is followed in audit planning, i.e. the length of period since the auditee has previously been audited is the major factor in the decision to audit a particular auditee in a given year. Nonetheless, some assessment of risk is also conducted based on the judgement of audit managers. Strategic planning would provide an opportunity for internal audit function to identify the key skills sets necessary for its staff, to attune its goals and objectives with those of the corporation. This argument may support a claim that the quality of strategic planning activity determines the capacity of internal audit to add value.

**Services provided**

The interview result revealed that the internal audit department performs financial and operational audits. The internal audit department also participates in various committee
assignments; but the types of committee in which internal audit should participate are not specified. The participation of internal audit in committees might signify the importance afforded to it as a consulting activity (Roth, 2002). The review of audit reports was also undertaken to discern the nature of the internal audit services from the major findings of the audits. As can be noted from Figure 2, most of the audit results are of traditional/compliance audit nature.

**Performance measures**

The interview revealed that the internal audit department used the number of audits conducted in a particular year as a performance measure. The annual audit plans serve as the performance target, and the number of audits conducted in the year is compared against the initial plan in evaluating performance of internal audit. This practice would lead internal audit to focus on output – which we argue is a traditional audit focus – as contrasted with outcome, which arguably should be the focus of a value-added internal audit function. The interview also indicated that no customer feedback is collected, and control self-assessment (CSA) is not applied – suggesting the possibility of reduced shared understanding between the management and internal audit.

**Marketing internal audit**

The interview results indicated that oral communication is the current means of marketing internal audit in the corporation. The internal audit function did not use a brochure or other formal tools to promote its current and potential services. The outcome of effectively marketing internal audit services should arguably be reflected in auditee cooperation and positive attitude. In a value-adding paradigm, the main function of the internal audit work is to assist its major stakeholders, i.e. the board, the management and employees to achieve organisational goals. However, many auditees, particularly at a lower level in operational areas consider auditors' as doing “mistake tracking” when they do investigation work. Some also consider auditors distractive to operational activities and become reluctant to cooperate with the auditors. Though the situation is taking a better shape nowadays, in general the auditors' work is not considered as supportive and the auditees' interest in discovery of deficiencies, error or any fraud is generally low.

**Summary of findings and conclusions**

**Summary of findings**

This paper has examined the role of internal audit in a large public enterprise that serves as a sole provider of telecommunication services in Ethiopia. The study aimed at drawing inferences about how the required attributes of value-adding internal audit departments would vary as contexts and/or situations do change. Data were gathered via questionnaires distributed to internal auditors and selected managers, an interview with the internal audit department manager, examination of selected internal audit reports, and review of policy and procedure manuals.

The corporation's internal audit has, to some degree, experienced a shift toward a value-adding focus in recent years. This shift is evidenced by the move to appoint multidisciplinary staff and to assign internal auditors in some SBUs. However, except that copies of audit reports are provided to the internal audit department at headquarters, the SBU's auditors' reporting responsibilities were to the respective SBU managers. This practice might challenge independence and objectivity; structuring the internal audit department at headquarters along
SBUs would rather improve the internal audit services. The paper also highlighted high-staff turnover and low skillsets in the internal audit department and noted that this might inhibit internal audit's capacity to maintain a high-staff profile. Further, it is noted that training of auditors was not accorded adequate attention, especially in view of the high-risk characteristics of the corporation's business.

The study revealed that traditional/compliance audit has been dominant in the corporation studied as compared to value-added audit. Both the manager and auditor respondents' perceptions of internal audit services corresponded – which confirmed the validity of the measurements used in the research. The mean responses, on a five-point Likert-type scale, were dominantly less than 3.00 for questions suggesting a value-added audit focus and greater than 3.00 for questions that suggested a compliance/traditional internal audit focus. The interview and document review results also supported these results. The scope of services was limited and the internal audit function invested much of its time in routine compliance audit activities. The study argued that though compliance audit might be value-adding in some contexts (Roth, 2003), it would be less value-adding than the consulting approach for the corporation because the corporation's business practice is characterised by rapid changes, and hence high risk. In such an organizational context, it is argued, the contribution of value-added audit to support achievement of goals would be profound.

The effectiveness of internal audit as measured by the rate of implementation of audit recommendations compared favourably to the results of Mihret and Yismaw (2007); yet there appears to be a possibility for improvement. Further, compared to Mihret and Yismaw's (2007) case study results, the corporation's internal audit staff exhibited good profile in terms of qualifications. The differences in internal audit's role in this study and that of Mihret and Yismaw (2007) may be associated with the differences in the levels of risk that the organisations were facing, and goals and strategies they pursued.

The study also showed internal audit marketing was not undertaken at a level that would help build a value-adding profile in the corporation and strategic plans for internal audit were not formulated.

**Conclusions**

In line with Roth (2002), this paper concludes that a study of value-added internal audit needs to be conducted in a defined context because institution-specific variables determine the appropriate value-adding profile of internal audit. Extending this concept a step forward, the paper argued that a pattern for classifying value-adding internal audit attributes based on a category of contexts would enable better prediction of the development direction of internal audit and a greater understanding of the new internal audit paradigm.

The results of the study highlight that the major contextual factors that may shape the attributes of value-adding internal audit departments include organisational goals (e.g. profit seeking versus non-profit), the strategies that organisations follow, and the levels of risk organisations may be facing. The relatively better profile of the corporation's internal audit compared to that of the organisation studied in Mihret and Yismaw (2007), and the fact that the latter pursued a non-profit goal may suggest that the organisational goals could impact on the profile of a value-adding internal audit department. A profit motive might put pressures on management to seek consulting services from internal auditors and hence to shape internal audit toward a value-added focus. In non-profit oriented firms, the focus may be on compliance with regulations, which could be under closer scrutiny by resource providers.
This closer control may in turn direct internal audit toward a compliance focus (Hass et al., 2006). The attributes of a value-adding internal audit department may also be shaped by the riskiness of the environment in which the organisation operates, such that in organisations that operate in high-risk environments the consulting paradigm of internal audit may be sought and encouraged. Finally, organisations promoting “aggressive” strategies may seek more consulting services from internal audit – due to frequent undertakings in new ventures – than those that follow “conservative” strategies.

The study also suggested key activities of internal audit that could considerably contribute to the attainment of a value-adding profile – strategic planning for, and marketing of, internal audit services. It appears that improved internal audit marketing could facilitate internal audits’ ability to develop a value-adding profile via improved auditee cooperation and soliciting enhanced management support. Further, better strategic planning by the internal audit department may enhance internal audits' ability to build up a value-adding profile by helping identify strategic issues and find solutions to any hurdles that are considered to exist on the way to achieving a value-added profile.

Research limitations and future research directions
Some potential limitations of this study should be noted. First, as in all case studies, the concepts studied cannot be separated from the context of the organisation in which the unit of analysis is based. As a result, only analytic generalisations to inferences could result from the study as compared to statistical generalisations to a population. Second, the conclusions of the study depend upon the assumption in the research design, i.e. the unit of analysis falls under the scope of the organisations considered in the literature that served as a basis to develop the analytical framework and data collection instruments.

Further research could be undertaken on internal auditing in Ethiopia to contribute to the theoretical and empirical literature. Specifically, conclusive follow-on research could be done on the role of internal audit in Ethiopia or other countries with similar settings.
**Figure 1** Organizational structure of the corporation

- **Board**
  - **Chief Executive Officer (CEO)**
  - **Chief Financial Officer (CFO)**
  - **Chief Marketing Officer**
  - **Chief Legal Officer**
  - **Chief Quality Officer**
  - **Chief Information Officer**
  - **Chief Procurement Officer**
  - **Chief HR Officer**
  - **Chief Facilities Officer**
  - **Chief Internal Support Officer**
  - **Deputy CEO, Operations**
  - **Deputy CEO, Technology**
  - **Deputy CEO, Engineering**
  - **Deputy CEO, Support Services**
  - **Chief Financial Officer, Business Control**
  - **General Manager, Network SBU**
  - **General Manager, Telecom Engineering SBU**
  - **Manager, International**
  - **General Manager, Service Delivery SBU**

*Note: GISTTT stands for Graduate School of Telecommunications and Information Technology*

*Source: Company Profile (2006)*

**Figure 2** Summary of major audit findings (2001 and 2003)

*Note: The chart is not included in this text.*
### Table I Descriptive statistics of questionnaire responses

<table>
<thead>
<tr>
<th>Questionnaire item</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Q1</th>
<th>Median</th>
<th>Q3</th>
<th>Max</th>
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<tbody>
<tr>
<td>All respondents</td>
<td>127</td>
<td></td>
<td></td>
<td>34</td>
<td>30</td>
<td>38</td>
<td>40</td>
<td>114</td>
</tr>
<tr>
<td>Business monitoring</td>
<td>127</td>
<td></td>
<td></td>
<td>37.5</td>
<td>34</td>
<td>45</td>
<td>48</td>
<td>127</td>
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<tr>
<td>Compliance</td>
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<td>35</td>
<td>114</td>
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<tr>
<td>Financial monitoring</td>
<td>127</td>
<td></td>
<td></td>
<td>38.5</td>
<td>35</td>
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<td>114</td>
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<td>Risk management</td>
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<td></td>
<td></td>
<td>35</td>
<td>32</td>
<td>38</td>
<td>41</td>
<td>114</td>
</tr>
<tr>
<td>Total respondents</td>
<td>127</td>
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<td></td>
<td>35.5</td>
<td>32</td>
<td>40</td>
<td>44</td>
<td>114</td>
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</table>

### Table II Major audit findings and rate of implementation

<table>
<thead>
<tr>
<th>Sample auditee</th>
<th>2001 audit report</th>
<th>2003 audit report</th>
<th>Major findings of 2001 repeated in 2002</th>
<th>Repeated (percent)</th>
<th>Not repeated (percent)</th>
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</thead>
<tbody>
<tr>
<td>South regional office</td>
<td>12</td>
<td>16</td>
<td>4</td>
<td>33.33</td>
<td>66.67</td>
</tr>
<tr>
<td>South west region</td>
<td>12</td>
<td>25</td>
<td>6</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Central Addis</td>
<td>10</td>
<td>21</td>
<td>4</td>
<td>40</td>
<td>60</td>
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<tr>
<td>Addis zone</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>66.67</td>
<td>33.33</td>
</tr>
<tr>
<td>Manufacturing deputy division</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>66.67</td>
<td>33.33</td>
</tr>
<tr>
<td>Internet service division</td>
<td>7</td>
<td>17</td>
<td>5</td>
<td>71.43</td>
<td>28.57</td>
</tr>
</tbody>
</table>

Source: Derived from Figure 2
• The Ethiopian Public Enterprise Proclamation No. 25/1992 defines public enterprises as … a wholly state owned enterprise established to carry on for profit manufacturing, distribution, service rendering or other economic and related activities Ethiopian telecommunications corporation operates as a public, for profit organisation, the second largest such enterprise in Ethiopia next to Ethiopian Airlines (available at: http://en.wikipedia.org/wiki/Communications_in_Ethiopia (accessed April 6, 2007)).

• Stern (1994) identified the following ways for attaining a value-adding internal audit department: becoming a catalyst for change, making auditing more collaborative, using self assessment to engage buy-in, using business staff into auditing, concentrating on business risk, aim to increase profits, share technology with the business units, align with customers, issue audit advisories company-wide, conduct preventive auditing, reduce external auditor costs, place auditors in special assignments, get the audit report out – fast, go back to the basics.

• Roth (2000) identified parameters for gauging value-adding internal audit department, grouped as follows: department organisation structure, staffing and work environment, risk assessment of the audit universe, audit services, other assurances and consulting services, audit department performance measures, marketing internal audit's services, and reinventing internal audit.

• Gupta's (2001) value-adding attributes are: assessing the inherent level of complexity in an organization, identifying internal audit customers and their needs, developing a mission and a vision for the internal audit function, taking a process view of the internal audit function, developing internal audit business model, using information technology as an enabler and developing internal audit's strategic plan as steps.

• Ethiopia is an East African Country with a population of 77.12 million (available at: http://en.wikipedia.org/wiki/List_of_countries_by_population (accessed June 4, 2007)).

• Eight regional and six zone offices are under the Fixed Line SBU (see Figure 1 for organizational structure).
References


Roth, J. (2002), Adding Value: Seven Roads to Success, The Institute of Internal Auditors Research Foundation, Altamonte Springs, FL.


Further Reading


Appendix. List of questions provided in the questionnaires

(a) Questions in the questionnaires provided to auditors

1. Organizing the internal audit department along business lines
   - Q1. The internal audit department is organized and structured along the SBUs of the corporation.
   - Q2. The internal audit department has shifted to more partnership with management to work on common control goals of the corporation.

2. Staffing of the internal audit department and its work environment.
   - Steps are taken by the audit department to ensure whether the staff has been getting further technical- and professional-related trainings by means of:
     - Q3. Preparing programs within the department.
     - Q4. Participating on the organizational courses.
     - Q5. External programs such as certified internal auditor seminars.
   - The internal audit manual becomes useful:
     - Q6. To guide all the audit activities conducted in the corporation.
     - Q7. For the education and training of new audit staff.
     - Q8. Auditors have a deep knowledge on the overall activities of the corporation.
     - Q9. Auditors have adequate knowledge of current internal audit practices of the profession.
o Q10. The internal audit department has built attractive work environment compared to other functional areas of the corporation.

o Q11. The internal audit department attracts the best and experienced employees from other parts of the corporation into internal audit function.

o Q12. Overall, auditors are constantly encouraged by the management of the corporation to find creative ways to add value to the corporation.

3. Risk assessment processes of the audit department in the corporation

o Q13. In the audit planning stages the audit staff meets with key business managers of the corporation to learn their views of problem areas and where they would like to see auditors focus their effort.

The internal audit department becomes the strategic business partner of the management on the process of:

o Q14. Risk identification and mitigation that may prevent the corporation from achieving its objectives.

o Q15. Ranking, prioritisation and analysis of risks.

o Q16. Risk measurement activity.

o Q17. Evaluating future risks to the corporation.

o Q18. Developing a formal risk assessment model on its audit practices.

4. Audit services provided to the corporation

o Q19. The internal audit department presented formally its list of best audit services to the management of the corporation.

o Q20. The internal audit department is providing adequate consulting and assurance services to the management of the corporation.

o Q21. Compliance auditing shares most of the auditors' time in their audit activity.

The internal audit department has shifted:

o Q22. From detective to preventive audit services.

o Q23. From compliance audit to business process improvement audit practices.

o Q24. From cyclical (periodical) audits to risk-based audits.

o Q25. From reactive to proactive auditing.
• Q26. To consulting audit activities.
• Q27. Overall, to value-added service type.

The activity of the internal audit department is more focused on:

• Q28. Compliance (i.e. with rules and regulations of the corporation) auditing.
• Q29. Special investigations as per the request of the management of the corporation.
• Q30. On business opportunities of the corporation.
• Q31. Operational audit to business processes.
• Q32. Consulting audit activity.
• Q33. Monitoring efficiency and effectiveness processes.
• Q34. Strategic plans and risk management.

The internal audit department has identified its:

• Q35. Key customers and their needs.
• Q36. Suppliers (other departments of the corporation which provide various resources to the audit department) and their role to understand the degree of dependence on them.
• Q37. Overall, the internal audit function of the corporation provides “value adding” audit services.

5.

Performance measures of the internal audit function

• Q38. The measurement criteria of the internal audit department's performance are the number of audits undertaken in the year in comparison with the budget.
• Q39. The performance of the internal audit department is evaluated against the targets and indicators identified in the organization's objectives and goals.
• Q40. The internal audit department periodically collects feedback from the management of the corporation to improve its overall performance.
• Q41. The internal audit department uses CSA to bring auditors closer to the management and to adopt a collaborative mind-set aiming for a problem solving approach.

6.

Marketing internal audit function in the corporation
7. Reinventing the internal audit function of the corporation

- Q45. The internal audit department assists management of the corporation in the evaluation of new technology to be adopted in the corporation.
- Q46. The internal audit department went through a major reinvention more from traditional to value-added auditing activities.
- Q47. The internal audit department is sharing technical expertise with the other functional areas of the corporation when necessary.
- Q48. The internal audit department uses computer-assisted tools to increase its audit efficiency and effectiveness.
- Q49. The internal audit department is viewed as a catalyst for the change of culture in the corporation.
- Q50. Overall, auditors are encouraged to think about what outcomes will help the corporation to operate more effectively and efficiently.

(b) Questions in the questionnaires provided to managers

1. Organizing the audit department along business lines

- Q1. The internal audit department is organized and structured along the SBUs of the corporation.
- Q2. The internal audit department has shifted to more partnership with management of the corporation to work on common control goals of the corporation.

2. Staffing of the internal audit department and its work environment

- Q3. Steps are taken by the management of the corporation to ensure whether the auditors have been getting continuous technical- and professional-related trainings.
Q4. Internal auditors have a deep knowledge on the overall activities of the corporation.

Q5. Internal auditors have adequate knowledge of current internal audit practices of the profession.

Q6. The internal audit department attracts the best and experienced employees from other parts of the corporation into internal audit function.

Q7. The internal audit department has built attractive work environment compared to other functional areas of the corporation.

Q8. Overall, internal auditors are constantly encouraged by the management of the corporation to find creative ways to add value to the corporation.

3.

Risk assessment processes by the internal audit department in the corporation

Q9. The internal audit department has developed its own long-term and short-term plans in alignment with the corporation's plan with the discussion of the management of the corporation.

The internal audit department becomes the strategic business partner of the management of the corporation on the process of:

Q10. Risk identification and mitigation that may prevent the corporation from achieving its objectives.

Q11. Ranking, prioritization and analysis of risks.

Q12. Risk measurement activity.


Q14. Developing a formal risk assessment model.

4.

Audit services of the corporation

Q15. The internal audit department presented formally its list of services to the management of the corporation.

Q16. The internal audit department provides adequate consulting and assurance services to the management.

Q17. Procedural (as per the rules and regulations of the corporation) auditing shares most of the auditors' time in their audit activities.

The internal audit department has shifted:
Q18. From detective to preventive audit services.
Q19. From procedural audit to business process improvement audits.
Q20. From cyclical (periodical) audits to risk-based audits.
Q21. From reactive to proactive auditing.
Q22. To consulting audit activities.

- The activity of the internal audit function is more focused on:
  
  - Q23. Procedural auditing.
  - Q24. Special investigations as per the request of the management.
  - Q25. Working with management for the betterment of the organization rather than a focus on seeing how many management mistakes they can find.
  - Q27. Operational audit to business processes.
  - Q30. The management of the corporation views the internal audit function of the corporation as a continuous process for improvement.
  - Q31. The internal audit department assists the management in fulfilling strategic and operational objectives of the corporation.
  - Q32. Overall, the internal audit function of the corporation provides “value adding” audit services.

5.

Performance measures of the internal audit function

- Q33. The internal audit department periodically collects feedback from the management of the corporation to measure management's satisfaction to improve its performance.
- Q34. The department uses CSA to bring auditors closer to management of the corporation to adopt a collaborative mind-set aiming for a problem solving approach.
- Q35. The performance of the internal audit department is monitored against the targets and indicators identified in the organization's objectives and goals.

6.
Marketing the internal audit function in the corporation

- Q36. Internal auditors have established themselves as management partners, and market their audit function and the potential available more effectively and efficiently.

- Q37. The department's actions are doing more to advertise the quality of internal auditors' services than any brochure could communicate.

- Q38. The management of the corporation perceives that the internal audit department is deploying the limited resources of the corporation with the biggest possible payback.

Reinventing the internal audit function in the corporation

- Q39. The internal audit department assists management in the evaluation of new technology to be adopted in the corporation.

- Q40. The internal audit department went through a major reinvention to more from traditional to value-added audit activity.

- Q41. The internal audit department is viewed as a catalyst for the change of culture in the corporation.