

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

Dessalegn Getie Mihret

Department of Accounting and Finance, Addis Ababa University, Addis Ababa, Ethiopia

Getachew Zemenu Woldeyohannis

Ethiopian Telecommunications Corporation, Addis Ababa, Ethiopia

Abstract

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.

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.

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.

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[1]. 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 (Spraukman, 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-Twaijry *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?

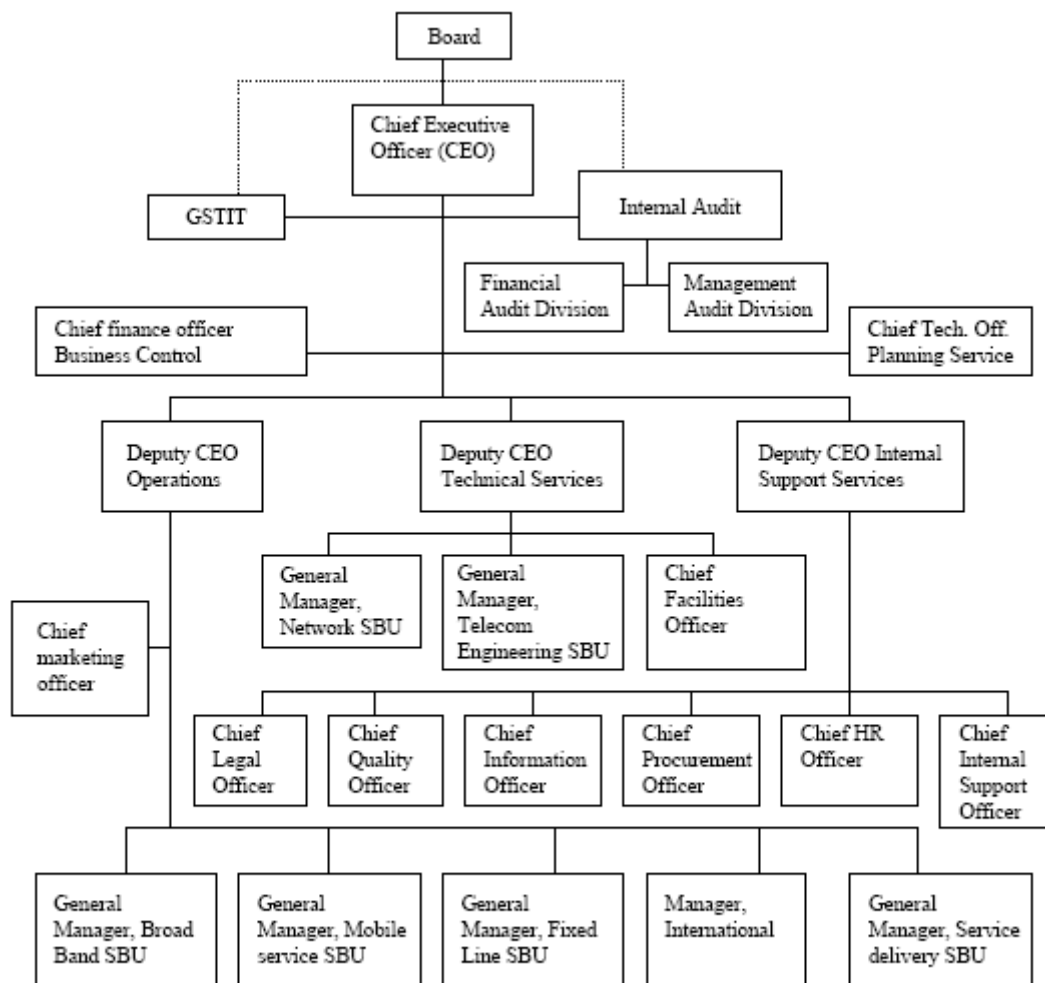
RI3. Does the level of risk that organisations face shape the attributes of a value-adding internal audit?

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 Allegrini *et 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.



Note: GSTIT stands for Graduate School of Telecommunications and Information Technology
 Source: Company Profile (2006)

Figure 1. Organizational structure of 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.

Table 1.

Question reference	<i>N</i>	Minimum	Maximum	Mean	SD
<i>Panel A: auditors' responses</i>					
1. Departmental organization					
Q1	26	1	4	3.12	1.033
Q2	26	1	5	3.12	1.071
2. Staffing and work environment					
Q3	28	1	5	2.96	1.290
Q4	28	1	4	2.54	1.138
Q5	28	1	4	1.86	0.803
Q6	28	2	5	3.64	0.951
Q7	21	1	5	3.29	1.384
Q8	26	1	4	2.38	1.098
Q9	25	1	4	2.44	0.917
Q10	28	1	5	2.32	1.156
Q11	28	1	4	2.18	0.819
Q12	28	1	4	2.43	0.959
3. Risk assessment					
Q13	27	1	4	2.67	0.920
Q14	23	2	5	3.09	0.848
Q15	25	2	4	3.36	0.700
Q16	26	2	4	2.77	0.815
Q17	23	1	4	2.87	0.920
Q18	26	1	4	2.62	0.941

Question reference	N	Minimum	Maximum	Mean	SD
4. Services provided					
Q19	26	1	5	2.73	1.116
Q20	27	2	4	2.85	0.907
Q21	27	2	5	3.81	1.111
Q22	27	1	5	2.70	1.103
Q23	28	1	5	2.82	1.090
Q24	27	1	5	2.78	1.013
Q25	28	1	4	2.64	0.870
Q26	26	1	4	2.65	0.936
Q27	27	1	5	2.93	1.035
Q28	28	3	5	4.21	0.499
Q29	28	2	5	4.07	0.716
Q30	28	1	4	2.46	0.922
Q31	28	1	5	2.96	0.999
Q32	27	1	4	2.37	0.926
Q33	27	1	5	2.85	1.027
Q34	25	1	4	2.68	0.988
Q35	28	1	4	2.32	1.056
Q36	28	1	4	2.54	1.036
Q37	27	1	5	2.70	1.031
5. Performance measures of the internal audit function					
Q38	28	1	5	3.43	1.230
Q39	26	1	5	2.62	1.061
Q40	25	1	4	2.72	1.021
Q41	27	1	4	2.33	1.074
6. Marketing the internal audit function					
Q42	28	1	4	2.79	0.833
Q43	28	1	4	2.25	1.110
Q44	28	1	4	2.07	1.152
7. Reinventing the internal audit function					
Q45	28	1	4	2.32	1.124
Q46	24	1	4	2.42	1.060
Q47	25	1	4	2.52	1.122
Q48	25	1	4	1.60	0.764
Q49	25	1	5	2.56	1.003
Q50	22	1	4	2.73	1.120
<i>Panel B: managers' responses</i>					
1. Departmental organization					
Q1	33	1	5	2.94	1.059
Q2	30	1	4	3.03	1.066
2. Staffing and work environment					
Q3	35	1	4	2.09	0.818
Q4	39	1	4	2.28	0.793
Q5	37	1	4	3.00	0.745
Q6	38	1	4	2.11	0.798
Q7	38	1	3	2.13	0.704
Q8	39	1	5	2.26	0.818
3. Risk assessment					
Q9	39	1	5	2.85	0.904
Q10	37	1	4	2.68	0.784
Q11	35	2	3	2.51	0.507
Q12	35	2	4	2.57	0.558
Q13	35	1	4	2.40	0.695
Q14	37	1	3	2.38	0.721

Question reference	<i>N</i>	Minimum	Maximum	Mean	SD
4. Services provided					
Q15	38	2	4	3.24	0.751
Q16	38	2	4	2.97	0.753
Q17	39	1	5	3.62	0.747
Q18	34	1	4	2.44	0.824
Q19	33	1	4	2.39	0.864
Q20	37	1	5	2.65	1.006
Q21	37	1	4	2.38	0.982
Q22	36	1	5	2.53	1.000
Q23	38	2	5	3.89	0.894
Q24	37	2	5	3.95	0.911
Q25	35	1	4	2.63	0.942
Q26	35	1	4	2.29	0.926
Q27	34	1	4	2.71	0.970
Q28	37	1	4	2.49	1.070
Q29	35	1	4	2.77	0.843
Q30	39	1	4	2.95	0.999
Q31	36	1	4	2.81	0.786
Q32	35	1	4	2.74	0.919
5. Performance measures of the internal audit function					
Q33	37	1	4	2.65	0.857
Q34	39	1	4	2.56	0.912
Q35	38	1	4	2.50	0.830
6. Marketing the internal audit function					
Q36	37	1	4	2.32	0.709
Q37	39	1	4	2.26	0.850
Q38	38	1	5	2.89	0.953
7. Reinventing the internal audit function					
Q39	38	1	4	2.18	1.136
Q40	38	1	4	2.39	1.028
Q41	37	1	4	2.51	0.989

Notes: (1) *N* – number of responses; (2) Q1, Q2, ... – question number as shown in Figure 2; (3) 5 – strongly agree; 4 – agree; 3 – neutral; 2 – disagree; and 1 – strongly disagree

Source: Questionnaire results

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-usable, 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 demphasize 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 Covalleski, 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 flexibility 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 SBUs such that particular units of internal audit would be assigned to specific auditees. Institut Français de l'Audit et du Contrôle Interne (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.

Sample auditee	Major findings and recommendations			Proportion of audit findings/ recommendations	
	2001 audit report	2003 audit report	Major findings of 2001 repeated in 2003	Repeated (percent)	Not repeated (percent)
South regional office	12	16	4	33.33	66.67
South west region	12	25	6	50	50
Central Addis					
Ababa zone	10	21	4	40	60
South west Addis					
Ababa zone	6	7	4	66.67	33.33
Manufacturing deputy division	3	6	2	66.67	33.33
Internet service division	7	17	5	71.43	28.57
Source: Derived from Figure 2					

Table II. Major audit findings and rate of implementation

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.

2001 Audit Report	2003 Audit Report
<ol style="list-style-type: none"> 1. Clearance of transport allowance without receiving proper receipts from Public Transport Cos. 2. Settlement of entertainment expenses, which were not authorized. 3. Payment of the bill of the next month without first paying the bill of the previous month. 4. Double payment of a month's bill. 5. Existence of exaggerated bills on which action has not been taken. 6. The existence of Birr 31,436.61 which is recorded as settlement of bill. It is not known for which telephone number this amount was paid. It is also not clear why the amount was paid. 7. From the sample taken one customer file with out contract (an agreement) was found. 8. A telephone line which has been disconnected due to non-payment has been found giving service. But bills have not been issued since the inappropriate reconnection. 9. The existence of a record of a long outstanding loan of coupons for 960 liters of benzene. This loan was given to drivers from Head-Office. 10. Some discrepancy has been observed while taking inventory of selected items (garments for uniforms). 11. The existence of many uniforms and shoes. These goods have been kept for a long time. 12. The existence of various receipt pads with printing and binding errors. 	<ol style="list-style-type: none"> 1. Birr 28,971.14 which has been transferred for settlement of project expenses was taken out of bank and kept in cash-safe for a long time. 2. Giving additional staff loan before clearance of previously taken advances. 3. Birr 1,070,398.83 which is an accumulation of amounts transferred at various times to project expense A/C No. 52 has not been utilized. It is kept idle. 4. Effecting payment without completion of the necessary formalities. 5. Request for and payment of overtime expenses does not follow the proper procedure of the corporation. 6. Stock cards of some tools and equipment do not show any movement for many years. 7. While inventory of revenue receipts was taken, physical quantity of some receipts was found to be less than the balance shown on the bin card. 8. Payment of bill of the next month without first settling the bill of the previous month. 9. Forcing some customers to pay twice for the same bill. 10. Legal follow-up to collect doubtful accounts is not satisfactory. 11. Waiting subscribers registration book does not show all the necessary information. 12. From customer files taken as a sample, it has been concluded that some files are not maintained properly and that necessary documents are missing from some customer files. 13. Change of name of some subscribers has been made without the necessary payment. 14. Writing a supporting letter to Addis Ababa for a person who is not a customer of the Regional Office. 15. Program has not been prepared for collecting money chambers of public telephones. 16. Coupons for 960 liters of benzene were lent to drivers from Head Office.

(a) South Region

2001 Audit Report:	2003 Audit Report
<ol style="list-style-type: none"> 1. Birr 20,000.00 which has been submitted to Gore sub area project expense A/C No. 2024 has not been utilized for a long time. 2. Although the electricity charge for April, 2000 was only Birr 1,244.36, A Manager of Gore sub area has prepared a pay-out order for Birr 2,244.36. This implies that he has taken Birr 1,000.00 for his own personal purpose. 3. Some project materials are bought without the consent (knowledge) of the purchase committee. 4. Revenue of some pay-stations is not collected against internal receipts in time. 5. Errors have been found in applying tariff. 6. Some operators did not collect money for international telephone services provided at pay-stations; collection of amounts not subsequently printed on telephone bills. 7. Some errors in posting (on customer cards of Agr sub area) have been observed. 8. Not taking timely action against customers who do not settle their bills in time. 9. The effort made to collect doubtful accounts amounting to birr 1,020,338.61 is not satisfactory. 10. Payment is not received for private interurban calls made from some service telephones. 11. There is a total amount of birr 40,546.31 on unmatched transaction list of August, 2000. 12. Amount collected from public phones is not equal to amount on subsequently prepared bills. 	<ol style="list-style-type: none"> 1. There are no cards to follow up returned salaries, payments of water and electricity charges as well as settlement of land tax. 2. Settlement of expenses from amount received for telephone services given at pay stations. 3. Some cashiers keep money received (handed over) from/by Operators and counter cashiers for some days before handing over to the main cashier. 4. Some errors in the utilization of tariffs have been observed. 5. Because there are no cash safe boxes in some pay-stations, Operators are obliged to keep money collected from customers in their residence. 6. Custody of leads and sealing of money chambers is not done according to regulations of the corporation. 7. No one is responsible for the custody of reserve money chambers of the new public telephones. There is a shortage of 3 reserve money chambers. 8. Because there is no coin counting machine, counting of coins manually has become difficult. It takes much time. 9. A big difference exists between amount collected from public phones and amount shown on bills. Information system facility of the new public phones is not being utilized. 10. When compared with the number of telephone the outstanding (uncollected) amount is very high. 11. Not taking timely action on customers who do not settle their bill within the prescribed time. 12. Because issuance of bills for cancelled telephone lines is not stopped in time, bills which only show monthly rents will be received for many months. 13. Sometimes bills will not be issued in time for new telephone subscribers. 14. Amounts which could have been investigated and payment asked for are also included in unmatched list. 15. Installing telephone lines without service orders at pay stations. This process has contributed to the increase of unmatched amounts. 16. Not collecting money (deducting from salaries) from/of ETC staff who have made personal calls on service telephones lines. 17. Not charging correct tariff for the installation of PBXs and monthly rents according to the number of connected extension lines. 18. Errors in computing PBX upgrading charges have been observed; There are no contracts (agreements) in some customer files; some additional direct lines have been connected to PBXs without works orders. 19. There is no information that shows the number type, capacity and extension lines of PBXs in the Region. 20. Book keeping of the stock cards of the region is not up to date. 21. Telephone apparatus which have been recovered from customers are being kept out-side the store of the Region. 22. Some customers' files have not got all the necessary information (documents). 23. Complete information is not given on waiting customers' Book; on average 20 days will pass before enquiry cards which were sent to the planner are returned to sales office. This leads to delay of sales. 24. Documents are transferred between sections under customer service without dispatches. 25. From the sample taken, it has been observed that some faulty telephone lines will not be repaired in a month.

(b) South West Region

2001 Report	2003 Report
<ol style="list-style-type: none"> 1. According to waiting customers registration book, 8,312 persons have been registered from 1979-1999. This number, however, seems very far from the correct one. 2. Some new telephone subscribers have not received bills from 8 to 9 months. 3. There is an unmatched amount / collectible amount of Birr 112,377.97 4. All necessary documents are not found in many customer files; files have not been opened for some customers. 5. Some customers whose analog telephone numbers were changed to digital numbers have not paid for the system change. 6. No corrective measures have been taken while collections from public telephones and amounts on subsequent bills have shown great difference. 7. There are no reserve keys for sixty three public phones which are giving service to the public. 8. 38 public phones do not give service due to various problems. 9. Daily collection is not registered on the same date at Lideta and African union telephone pay stations. 10. Due to lack of calculating machines at pay stations, much time is spent to add amounts on Telephone Call Receipts while handing over to cashiers. 	<ol style="list-style-type: none"> 1. A shortage of birr 2,865.12 has been discovered while counting cash (working fund) on June 24, 2003. 2. Some operators at Filtvaha pay station hand over daily collections after 4-7 days have passed. 3. TCRs have not been prepared for some calls originating from Filtvaha pay station (Tel. No. 289622). 4. Minutes and amount shown on bills are greater than those registered on receipts. 5. A booth usage charge of only birr 0.35 has been collected for each call originating from Africa Union pay station. 6. It was not possible to prove the correctness of amounts collected from provision of fax service based on activity report and subsequently issued bills. 7. Charge for email service provided to customers is high; the quality is not satisfactory. 8. An unfavourable variation of Birr 1,010,000.00 has been found between actual payment for overtime work and the budgeted amount. 9. Not transferring to Head Office the remaining amount in project expense account after completion of projects. 10. Some bills which were issued in the past 8 to 44 months have been found in the office of custodians. 11. Because of not taking timely action, the amount on unmatched transaction list is increasing from time to time. It has reached Birr 327,801.03. 12. Because list of officials, authorized to make free international business calls, and their telephone numbers have not reached the concerned offices, it is difficult to follow up and deduct salaries of unauthorized staff who may have made private international calls. 13. There is a difference between money collected from public phones and amount shown on bill registers. 14. Because of not fully utilizing the management system of public telephones, collection of money, maintenance of faults and extraction. 15. There are 26 idle apparatus in the office of public telephone section. 16. As there is shortage of spare parts, some apparatus with minor faults are being cannibalised. 17. Because of not utilizing correct tariff, Birr 42,088.50 has remained uncollected until August, 2003. 18. Some customers who have not signed an agreement and others whose contract was not renewed have been discovered. 19. There are a few customers who have been provided with business category telephone service without first attaching copies of licenses and identity cards with their application letters. 20. Files have not been opened and maintained for some customers. 21. Rules and regulations of ETC which are applicable to stores are not adhered to. <ol style="list-style-type: none"> a) inventory is not taken at the end of the budget year; b) beginning balances are not recorded on bin cards; complete records of receipts and issuances of materials are not kept. c) some materials received from central warehouse and other recovered materials are kept in offices outside the store.

(c) Central Addis Ababa Zone

2001 Report	2003 Report
<ol style="list-style-type: none"> (a) Money collected from providing telephone service at Jimma Burepay station is kept by the operators from two to eight days. (b) Amount collected from Inter-Urban calls originating from the above mentioned pay station is not according to the tariff. (c) Not writing full information on telephone call receipts. E.g. on the space next to type of call not writing urgent, normal or number only. The effort made to collect outstanding amounts is not satisfactory. (a) The room provided for custody of files is too narrow to keep all customer files. (b) Because of shortage of shelves many files are placed on the floor. (c) There are no agreements and service orders in some files. Charges for three international calls originating from service telephone (a) There is an amount of birr 39,400.23 on the unmatched transaction list of September, 2000. (b) International calls have been made from unsold telephone lines. Bin cards are not opened and maintained. There is no proper receipt control procedure. 	<ol style="list-style-type: none"> (a) money received for provision of telephone service at the pay station under Ayer Tezu senior area office is not handed over to the cashier on the date of collection or the next date. (b) The operators at the above mentioned pay station don't hand over all the money collected. (c) The cashier does not deposit amount he collected against internal receipts on the date of receipt or the next date. (d) The cashier does not deposit all of the amount he has received against internal receipts. Customers who wish to leave the country or terminate their agreement with ETC for any other reason, are requested to deposit an amount which will be used to settle their bills and to provide a guarantor. In case the bill amount exceeds the provisional payment, the guarantor is supposed to settle the difference. Because of absence of proper follow up procedure, there are bills issued to the above type of customers in custody which have not been settled for seven months. Full information is not written on waiting customers register. This book is not closed at year end by responsible officials. After enquiry number and date have been written on a row an open space is left. Due to the above factors, it is not possible to ascertain whether telephone lines are being sold to customers on a first come first served basis. This may pave the way for customer complaint. (a) Monthly rents of some PABXs are below the tariff. (b) Contrary to the rules and regulations of the corporation, PABX equipment are requested for and taken directly out of central warehouse by PABX section. (c) Recovered equipment are kept in the above mentioned section. (d) Issuing and receiving reports are not prepared properly. (e) Customers whose PABX become faulty have to call the office which carries out the maintenance work. If all technicians are out on assignments, there will be no one to answer the phone. Due to this, the customers may be frustrated. Receipt control is not practiced properly. (a) Customer files are not kept properly; they are tied together by rubber bands and placed in cardboard boxes. (b) Some contracts which have been signed a very long time ago were found. (c) There are some files of customers who have not signed new agreements at the time of change of telephone numbers.

(d) South West Addis Ababa Zone

2001 Report	2003 Report
<ol style="list-style-type: none"> According to the staff, the poor quality of sand procured for manufacturing Cement products has a negative effect on the quality of finished products. Office furniture are manufactured per requests of various offices. However, there is no registration book to follow up on the timely production of furniture according to incoming requests. (a) There is no registration book that shows the condition of property received for maintenance and its movements. (b) It is difficult to follow up and ascertain whether furniture received for maintenance have been repaired and returned. (c) Property may have been repaired and returned. However, there is no evidence of acceptance (like signature of a staff of the concerned office) of the repaired good. (d) Cost of maintenance of furniture is not recorded properly. 	<ol style="list-style-type: none"> Preparation of plans or programmes without having advance knowledge of the requirements of various offices. Non existence of current suppliers' list has led to purchase of materials whose quality and price is not satisfactory. There is no information available to calculate the difference between actual cost of production and the standard cost. Because job cards are not opened and maintained for each job, it is difficult to evaluate performance. Some times, products are manufactured from similar materials (not listed on the material specification according to the standard). But, cost of production is reported as per the standard. Non-availability of full information which will help an interested party to ascertain whether all requested goods have been manufactured or not.

(e) Manufacturing Deputy Division

2001 Report	2003 Report
<ol style="list-style-type: none"> There is no cash book. Ledger and bank statement are reconciled every six months. It could not be ascertained whether money has been collected on a turned check for Birr 2,160.92. Effort made to collect outstanding amounts is not satisfactory. It was not possible to ascertain whether charges for Internet service provided from December 2000, January 2001 was collected or not. Not taking legal action against customers who do not settle their bills in time. Payment of bill of the next month without first settling the bill of the previous month. The division provides services, prepares bills and collects money in violation of principles of internal control. The root cause for the above mentioned problems is the unavailability of detailed execution rules and regulations as well as clear cut duties and responsibilities for each area of assignment (position). 	<ol style="list-style-type: none"> Transactions are not registered daily on cash book. Due to this, preparation of bank reconciliation is late. The cashier does not accept returned checks (against signature) and record on daily cash sheets. There is a long outstanding item (Birr 2,160.92-check No. 227130 dated 09/02/98) on the bank reconciliation of November, 2001. There is no receipt control activity. Not responding to complaints of customers (related to exaggerated bills) in time. A single bill is issued for two months. Due to this, customers find it difficult to settle their bills in time. Bills are handed over without signature on appropriate documents. It was impossible to determine the exact outstanding amount due to limitation of available information. Bills of regional customers which are paid in Addis are not recorded separately. Due to various reasons, some customers who terminate their contract with ETC pay a provisional amount in advance. However, there is no follow-up to deduct this payment from bills issued subsequently. Settlement of bill of the next month without first settling bill of the previous month. Not taking timely action against customers who do not settle their bills in time. Effort made to collect outstanding amount is not satisfactory. As bills are prepared according to bill numbers (not per account No.), it is difficult to follow up their settlement and avoid issuance of two bills for the same customer. Proper attention is not given to investigate and clear amounts shown on unmatched transactions list. All necessary documents are not available in some customers files. Moreover, files are not kept in an orderly manner. Follow up on collection activities of regional offices is not strong.

(f) Internet Service Division

Note: The items indicated in boldface are those for which comments on similar issues appeared in subsequent audit reports

Source: Review of internal audit reports

Figure 2

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 co-operate 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.

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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
 1. Q1. The internal audit department is organized and structured along the SBUs of the corporation.
 2. 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.
3. Steps are taken by the audit department to ensure whether the staff has been getting further technical- and professional-related trainings by means of:
 1. Q3. Preparing programs within the department.
 2. Q4. Participating on the organizational courses.
 3. Q5. External programs such as certified internal auditor seminars.
4. The internal audit manual becomes useful:
 1. Q6. To guide all the audit activities conducted in the corporation.
 2. Q7. For the education and training of new audit staff.
 3. Q8. Auditors have a deep knowledge on the overall activities of the corporation.
 4. Q9. Auditors have adequate knowledge of current internal audit practices of the profession.
 5. Q10. The internal audit department has built attractive work environment compared to other functional areas of the corporation.
 6. Q11. The internal audit department attracts the best and experienced employees from other parts of the corporation into internal audit function.
 7. Q12. Overall, auditors are constantly encouraged by the management of the corporation to find creative ways to add value to the corporation.
5. Risk assessment processes of the audit department in the corporation
 1. 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.
6. The internal audit department becomes the strategic business partner of the management on the process of:
 1. Q14. Risk identification and mitigation that may prevent the corporation from achieving its objectives.
 2. Q15. Ranking, prioritisation and analysis of risks.
 3. Q16. Risk measurement activity.
 4. Q17. Evaluating future risks to the corporation.
 5. Q18. Developing a formal risk assessment model on its audit practices.
7. Audit services provided to the corporation
 1. Q19. The internal audit department presented formally its list of best audit services to the management of the corporation.
 2. Q20. The internal audit department is providing adequate consulting and assurance services to the management of the corporation.
 3. Q21. Compliance auditing shares most of the auditors' time in their audit activity.
8. The internal audit department has shifted:
 1. Q22. From detective to preventive audit services.
 2. Q23. From compliance audit to business process improvement audit practices.
 3. Q24. From cyclical (periodical) audits to risk-based audits.
 4. Q25. From reactive to proactive auditing.

5. Q26. To consulting audit activities.
6. Q27. Overall, to value-added service type.
9. The activity of the internal audit department is more focused on:
 1. Q28. Compliance (i.e. with rules and regulations of the corporation) auditing.
 2. Q29. Special investigations as per the request of the management of the corporation.
 3. Q30. On business opportunities of the corporation.
 4. Q31. Operational audit to business processes.
 5. Q32. Consulting audit activity.
 6. Q33. Monitoring efficiency and effectiveness processes.
 7. Q34. Strategic plans and risk management.
10. The internal audit department has identified its:
 1. Q35. Key customers and their needs.
 2. 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.
 3. Q37. Overall, the internal audit function of the corporation provides “value adding” audit services.
11. Performance measures of the internal audit function
 1. 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.
 2. Q39. The performance of the internal audit department is evaluated against the targets and indicators identified in the organization's objectives and goals.
 3. Q40. The internal audit department periodically collects feedback from the management of the corporation to improve its overall performance.
 4. 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.
12. Marketing internal audit function in the corporation
 1. Q42. Marketing of the internal audit function is integrated into every function of the audit department within the consciousness of the auditors.
 2. Q43. The department's actions are doing more to advertise the quality of internal auditors' services than any brochure could communicate.
 3. Q44. The internal audit department uses audit brochure as one of the promotional method of the audit services of the corporation.
13. Reinventing the internal audit function of the corporation
 1. Q45. The internal audit department assists management of the corporation in the evaluation of new technology to be adopted in the corporation.
 2. Q46. The internal audit department went through a major reinvention more from traditional to value-added auditing activities.
 3. Q47. The internal audit department is sharing technical expertise with the other functional areas of the corporation when necessary.
 4. Q48. The internal audit department uses computer-assisted tools to increase its audit efficiency and effectiveness.
 5. Q49. The internal audit department is viewed as a catalyst for the change of culture in the corporation.
 6. 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
 1. Q1. The internal audit department is organized and structured along the SBUs of the corporation.
 2. 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
 1. Q3. Steps are taken by the management of the corporation to ensure whether the auditors have been getting continuous technical- and professional-related trainings.
 2. Q4. Internal auditors have a deep knowledge on the overall activities of the corporation.
 3. Q5. Internal auditors have adequate knowledge of current internal audit practices of the profession.
 4. Q6. The internal audit department attracts the best and experienced employees from other parts of the corporation into internal audit function.
 5. Q7. The internal audit department has built attractive work environment compared to other functional areas of the corporation.
 6. 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
 1. 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.
4. The internal audit department becomes the strategic business partner of the management of the corporation on the process of:
 1. Q10. Risk identification and mitigation that may prevent the corporation from achieving its objectives.
 2. Q11. Ranking, prioritization and analysis of risks.
 3. Q12. Risk measurement activity.
 4. Q13. Evaluating future risks to the corporation.
 5. Q14. Developing a formal risk assessment model.
5. Audit services of the corporation
 1. Q15. The internal audit department presented formally its list of services to the management of the corporation.
 2. Q16. The internal audit department provides adequate consulting and assurance services to the management.
 3. Q17. Procedural (as per the rules and regulations of the corporation) auditing shares most of the auditors' time in their audit activities.
6. The internal audit department has shifted:
 1. Q18. From detective to preventive audit services.
 2. Q19. From procedural audit to business process improvement audits.
 3. Q20. From cyclical (periodical) audits to risk-based audits.
 4. Q21. From reactive to proactive auditing.
 5. Q22. To consulting audit activities.
7. The activity of the internal audit function is more focused on:
 1. Q23. Procedural auditing.
 2. Q24. Special investigations as per the request of the management.
 3. Q25. Working with management for the betterment of the organization rather than a focus on seeing how many management mistakes they can find.
 4. Q26. On business opportunities of the corporation.
 5. Q27. Operational audit to business processes.

6. Q28. Consulting activity.
 7. Q29. Monitoring efficiency and effectiveness processes.
 8. Q30. The management of the corporation views the internal audit function of the corporation as a continuous process for improvement.
 9. Q31. The internal audit department assists the management in fulfilling strategic and operational objectives of the corporation.
 10. Q32. Overall, the internal audit function of the corporation provides “value adding” audit services.
8. Performance measures of the internal audit function
 1. Q33. The internal audit department periodically collects feedback from the management of the corporation to measure management's satisfaction to improve its performance.
 2. 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.
 3. Q35. The performance of the internal audit department is monitored against the targets and indicators identified in the organization's objectives and goals.
 9. Marketing the internal audit function in the corporation
 1. Q36. Internal auditors have established themselves as management partners, and market their audit function and the potential available more effectively and efficiently.
 2. Q37. The department's actions are doing more to advertise the quality of internal auditors' services than any brochure could communicate.
 3. 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.
 10. Reinventing the internal audit function in the corporation
 1. Q39. The internal audit department assists management in the evaluation of new technology to be adopted in the corporation.
 2. Q40. The internal audit department went through a major reinvention to more from traditional to value-added audit activity.
 3. Q41. The internal audit department is viewed as a catalyst for the change of culture in the corporation.

Corresponding author

Dessalegn Getie Mihret: desgetie@yahoo.com; dessalen@acct.aau.edu.et