

Legal Framework of Internal Auditing in Ethiopian Public Higher Education Institutions

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ABSTRACT

Purpose: Obtaining literature related to the legal framework of internal auditing was challenged. As a result of this, the main aim of this study is to evaluate the legal framework of internal auditing in Ethiopian public higher education institutions. Also, the study uses to reduce the limitations of the legal framework, and the difference between the legal framework and actual practices. **Methodology:** To meet this objective, interviews and published documents were used. **Findings:** The result revealed that it is signified in the existing internal auditing legal framework that the Ministry of Finance and Economic Cooperation of the country is responsible to issues related to the human resource administration and internal audit organization of the public higher education institutions. But for the daily routines, the responsibility goes to the President of the university. The legal framework indicates that the internal auditors of the public institutions cannot be promoted and compete for vacancies in other departments within the institution, which exposed the institutions for high employee turnover. **Implications:** It can be concluded that the adjustment of the internal auditors' salary/benefits will reduce the employee turnover of the institutions, and also, establishing the internal audit charter and audit committee will ensure the independence and objectivity of the internal auditors. **Originality:** Till now, no author has reported such type of empirical study, and also it is fully my original work carried out by me.

Keywords: Ethiopia, Internal audit charter, Internal auditing, Legal framework, Public higher education institutions.

Abbreviation: SPPIA, Standards for the Professional Practice of Internal Auditing.

INTRODUCTION:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal auditing helps an organization to accomplish its objectives and to make good corporate governance by bringing a systematic and disciplined approach. Also, it is a catalyst to improve an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes (Institute of Internal Auditors, 2004; Pickett, 2005; Paape, 2007; Pickett, 2010; Al-Khaddash et al., 2013). Internal audit function is a key component of the good corporate governance structure (Pickett, 2005; Pickett, 2010). The recent corporate failure (Pickett, 2010), the wastage of public resources and the rapid growth of professional institutions are the

main causes for the current demand of internal auditing in different institutions (Cohen & Sayag, 2010). To do the actual function of the institution in a proper way, to analyze the gaps between the auditing profession and actual practices (Wahdan, 2005; Wahdan et al., 2006), to identify the reasons of nonconformity of the legal framework of the audit profession, to give appropriate suggestion to transfer from nonconformity to conformity (Wahdan, 2005), to identify the challenges of the audit environment and its origin, and to identify the auditors' preferred strategies to overcome the challenges (Wahdan et al., 2006), the legal framework of internal auditing helps as a guideline.

After 1991, Ethiopia had received loans and grants from the World Bank and International Monetary Fund. Also, it had received Western economic policy reform consultants. Because of these, in the early 1990s, the government initiated to reform the internal auditing and financial reporting of the public sector (Peterson, 2001 as cited in Mihret, 2010). Moreover, most prior empirical studies proved that internal audit is the cornerstone of corporate governance, as a result of this, the demand of the internal audit is increasing. In line with this notion, the government of Ethiopia had initiated to improve the internal auditing of the public sectors by issuing different proclamations, regulations, directives, and also by supporting Institute of Internal Auditors-Ethiopia (Mihret, 2010). For instance, the Federal Civil Servants Proclamation No. 515/2007 was issued by the 19th day of February 2007 (Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 2007); the Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996 was issued by the 19th day of December 1996, but now it repealed by the Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009 (Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 2009); the Federal Civil Servants Disciplinary and Grievance Procedure Council of Ministers Regulations No. 77/2002 was issued by the 3rd day of July 2002 (Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 2002); the Financial Administration Council of Ministers Regulation No. 17/1997 was issued by the 1st day of July 1997, but now it repealed by the Financial Administration Council of Ministers Regulation No. 190/2010 (Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 2010); the Federal Government Internal Auditors Directive No. 7/2010 was issued by the 10th day of December 2010 (Ministry of Finance and Economic Development of Ethiopia, 2010); the Federal Government Internal Auditors Directive No. 47/2016 was issued by the 25th day of October 2016 (Ministry of Finance and Economic Cooperation of Ethiopia, 2016) and the Federal Ministry of Public Service and Human Resource Development. With regard to the legal framework of internal auditing, there is a lack of literature. Moreover, in accordance with the researchers' observation, there were some limitations in the internal auditing legal framework of the institutions. Thus, from this understanding, the main aim of the study was to evaluate the legal framework of internal auditing of public higher education institutions in Ethiopia.

REVIEW OF LITERATURE:

There are different studies that have been conducted on the legal framework of internal auditing in different countries and institutions, but the findings of those studies vary by place as well as by institution. The summary of some of the prior empirical studies related to the legal framework of internal auditing has been presented as follows;

[Institute of Internal Auditors \(2001\)](#) is the setter of the International Standards for the Professional Practice of Internal Auditing. In accordance with the Institute of Internal auditors, self-review, social pressure, personal relationship, cultural, cognitive, and economic interests like gifts from employees, clients, and business associates are the main causes for the bias of internal auditors'. The institute further defined that objectivity or individual objectivity is a state of mind while independence is the state of affairs that permits an internal auditor to operate with an objective attitude. Further, the Institute of Internal Auditors recommended that to ensure the independence of internal auditors, the audit department of institution functionally it should report to the audit committee or board of directors, and administratively to the Chief executive officer of the institution. Functional report means approve internal audit charter, audit plan, internal audit risk assessment, appointment or removal of chief audit executive, annual compensation and salary adjustment of the Chief audit executive, and determining the scopes or budget of internal audit department. Administrative report means controlling the day-to-day operations of the internal audit department, including budgeting and accounting, human resource (personnel evaluations and composition, internal communication, information flow, and so on), and internal policies and procedures. In addition, the institute concluded that to get quick information and to find problems at an earlier stage, internal auditors had more advantage than external auditors.

[Ministry of Finance and Economic Development of Ethiopia \(2004\)](#) is the setter of the internal audit standards, code of ethics of internal auditors and internal audit procedural manual of Ethiopian public sectors. The ministry stated that in Ethiopia professional auditors and institutional independence were the major problems of internal

audit. Moreover, as a result of a conflict of interest, immediate supervisors give less respect for internal auditors. Also, assigning auditors on the many tasks was the other problem of internal audits of the public institutions in Ethiopia.

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[Wahdan \(2005\)](#) analyzed the legal framework of the auditing profession in Egypt by collecting data from 82 auditors in addition to document review. The objectives of the study were to analyze the gap between the legal framework of the auditing profession, the accounting and auditing professional standards, and actual practices. The study findings indicated that there was a gap between the legal framework of the auditing profession, the accounting and auditing professional standards, and the actual practices. Lack of expertise and experience in the profession, lack of accounting and auditing training institutions, weaknesses of apprenticeship, and lack of competitiveness in terms of salaries and incentives related to the audit profession were the major reasons for the gap between the legal framework of the auditing profession, the accounting and auditing professional standards, and the actual practices.

[Wahdan et al. \(2006\)](#) diagnosed the current status of the auditing framework and actual practices in Egypt by collecting data from 32 auditors in addition to document review. Analyzing the gap between the legal framework of the auditing profession and actual practices, analyzing the gap between the international auditing professional standards and actual practices, identifying the challenges of the audit environment, identifying the origins of the challenges and identifying the auditors' preferred strategies to overcome the challenges were the objectives of the study. The findings of the study revealed that there was a gap between the legal framework of the auditing standards and the actual practices and also there was a gap between the international auditing professional standards and the actual practices. Lack of expertise and experience in the profession, lack of professional ethics standards and variations of the auditors' judgments were the major causes for the gap between the legal framework of the auditing profession, international auditing professional standards, and actual practices. The study recommended that to overcome the scarcity of the experience and expertise, the knowledge-based system is preferable. Moreover, they stated that to value and invest in companies, to predict the bankruptcy of companies, and to facilitate the process of economic development, the auditing activity plays a great role by providing reliable information.

[De Zwaan et al. \(2007\)](#) examined the effect of internal auditor and audit committee interaction on the objectivity of internal auditors' in Australia. To attain the objective of the study, they collected data from 117 certified internal auditors. The study revealed that the level of internal auditors' and audit committees' interaction (i.e. high vs. low) had a significant effect on the objectivity of internal auditors'.

[Abdolmohammadi \(2009\)](#) identified factors related to the use of and compliance with the Institute of Internal Auditors' standards in 1,029 Anglo-culture Chief audit executives. Based on the literature review, the study took certificate related to internal auditing, length of membership in the Institute of Internal Auditors, being not perceived as value-adding by management/board, being superseded by local/government regulations, compliance being not expected in the country, length of training related to internal auditing, cost of standards and inadequate internal audit staff as the factors to check their association with the use of and compliance with the Institute of Internal Auditors' standards. The findings of the study revealed that the internal auditing certification and the length of membership in the Institute of Internal Auditors were positively associated with the use of the institute of internal auditors' standards. But being not perceived as value-adding by management/board, being superseded by local/government regulations and compliance being not expected in the country were negatively associated with the use of the institute of internal auditors' standards. The study also found that the length of training was positively associated with the compliance of the institute of internal auditors standards, although the cost of standards, inadequate internal audit staff, internal audit certification and being not perceived as value-adding by management/ board' were a negatively associated with the compliance of the institute of internal auditors standards.

[Institute of Internal Auditors \(2012\)](#) is the setter of the International Standards for the Professional Practice of Internal Auditing. In 2012, the Institute of Internal Auditors recommended that to ensure the independence of internal auditors, the audit department of institution functionally it should report to the audit committee or board of directors, and administratively to the Chief executive officer of the institution. Functional report means approve

internal audit charter, audit plan, internal audit risk assessment, appointment or removal of Chief audit executive, annual compensation and salary adjustment of the Chief audit executive, and determining the scopes or budget of internal audit department. Administrative report means controlling the day-to-day operations of the internal audit department, including budgeting and accounting, human resource (personnel evaluations and composition, internal communication, information flow, and so on), and internal policies and procedures. In addition, the institute concluded that to get quick information and to find problems at an earlier stage, internal auditors had more advantage than external auditors.

Generally, as the literature denoted, directly related to internal auditing legal framework, no many studies have been conducted.

MATERIALS AND METHODS:

The main aim of the study was to evaluate the legal framework of internal auditing in Ethiopian public higher education institutions. To achieve this objective, the proclamations, regulations, directives, and manuals of the internal auditing of the country were used as the source of data. In addition, three internal audit department directors participated in the semi-structured interviews to provide rich information than an attempt to draw a representative sample in this particular study. The respondents were considered based on their direct attachment to the study area. Data were collected from April 2018 to December 2018 for 9 months.

RESULTS AND DISCUSSION:

The Ministry of Finance and Economic Development of the country (the Federal Ministry of Finance and Economic Development) issued the "Federal Government Internal Auditors Directive No. 7/2010" in accordance with the power given in article 75 of the Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009. This legal framework is divided into five parts. The first part is general provisions, which include issuing authority, short title, interpretation, and scope of implementation of the directive. The second part is duties and responsibilities, which contain purpose of internal audit, accountability of the internal audit department, responsibility of the management regarding the internal audit, duties and responsibilities of internal audit department, functions that should not be performed by the internal audit department, internal audit freedom, responsibility for maintaining, authorizing and protecting of internal audit information, and professional protection of internal auditors. The third part is internal audit standards for Public Offices, which include principle and internal audit professional performance. The fourth part is internal audit professional ethics, which include principle, integrity, objectivity, confidentiality, and competency. The last, fifth part, is the internal audit plan and report, it contains internal audit planning preparation and presentation schedule, internal audit reporting preparation and presentation schedule, repealed instructions and the effective date of the directive.

In addition to the "Federal Government Internal Auditors Directive No. 7/2010", the Federal Ministry of Finance and Economic Cooperation (the former Federal Ministry of Finance and Economic Development) issued the "Federal Government Internal Auditors Directive No. 47/2016" in accordance with the power given in article 75 of the Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009. This directive was issued by making some amendments on the "Federal Government Internal Auditors Directive No. 7/2010." The "Federal Government Internal Auditors Directive No. 47/2016" is divided into four parts. Part one is general provisions, which contain issuing authority, short title, interpretation, the scope of implementation of the directive, objectives of the directive and accountability of the internal audit department. Part two is duties and responsibilities, which include duties and responsibilities of the Federal Ministry of Finance and Economic Cooperation, duties and responsibilities of the management, and duties and responsibilities of the internal audit department. Part three is staff administration, which contains employment, level of development, transfer, planning and performance evaluation, miscellaneous permits, resignation, work experience, and internal audit organization. The last, part four, is miscellaneous, which contain the effectiveness date of the directive.

The main objectives of both legal frameworks (the "Federal Government Internal Auditors Directive No. 7/2010" and the "Federal Government Internal Auditors Directive No. 47/2016") are to ensure the independence of the internal auditors of federal government offices when they perform their professional duties; to establishing an effective, efficient and competent internal audit department in the public bodies; and to ensure that government resources and assets are used for the sole purpose by strengthening the internal audit units of public bodies. Moreover, these legal frameworks are used for all Federal public institutions, which are partly or wholly financed by the government allocated budget including the public higher education institutions. The detailed reports of the

two legal frameworks, the "Federal Government Internal Auditors Directive No. 7/2010" and the "Federal Government Internal Auditors Directive No. 47/2016"), of internal audit of the public higher education institutions in Ethiopia are presented as follows.

Perspectives of the Federal Government Internal Auditors Directive No. 7/2010:

The effective date of the Federal Government Internal Auditors Directive No. 7/2010 was from the 10th day of December 2010. The explanations of the directive are presented as follows.

Accountability of Internal Audit Department:

Related to the human resources administration, such as recruitment, employment, promotion, transfer, performance evaluation, permits, resignation, training, work experience, social security disciplinary measures, and so on, the internal audit department was accountable to the President of the university. Related to the daily duties, such as work entry and exit time, audit work plan approval, budget approval, salary payment, assigning supporting staff (like cleaners, dispatchers, etc.) and so on, the internal audit department also accountable to the President of the university. The internal audit department of the public higher education institution should submit the audit report directly to the institution President and copy to the Federal Ministry of Finance and Economic Development.

Duties and Responsibilities of Public Higher Education Institutions:

Duties and Responsibilities of the public higher education institutions related to the internal audit department were organizing an independent and neutral internal audit department, appoints an internal audit director with adequate educational preparation and relevant work experience, ensures proper and credible recognition of the potential harm caused by failure to take action on audit reports that require immediate action, ensures that the relevant departments take corrective action as they receive an audit report and then notifies to the Federal Ministry of Finance and Economic Development within 30 days of the corrective action taken in accordance with the audit report.

Duties and Responsibilities of Internal Audit Department:

Internal audit department prepares the internal audit department's budgeting needs and works plan in accordance with the objective of the institution, and provides them to the institution for the approval; submits the work plan to the Federal Ministry of Finance and Economic Development; keeps and informs the audit work plan to all units being audited; follows the internal auditors' knowledge and skills needed to effectively perform the audit function; analyzes and supervises the department with a comprehensive internal control system that will enable the company to achieve its objectives in a cost-effective manner and identify risks or vulnerabilities; Conducts an audit first meeting and conduct an audit end meeting with the relevant executive officers and department directors; prepares and submits a complete report based on appropriate reporting on the findings of the department and submit to the President of the university; performs an audit when directed by the President of the university to perform a special audit that is not already planned; ensures that the inventory is made in accordance with the Financial Administration Proclamation, Regulation and Directive at the end of the fiscal year by observing the inventory and by participating in liquidity accounting to ensure compliance and submit the census report to the Federal Ministry of Finance and Economic Development; according to the previous audit reports, advises the President of the university to take corrective action to follow up on non-corrective findings; monitoring for external auditors to take corrective action on finding, and submits a timely and annual performance report to the President of the university.

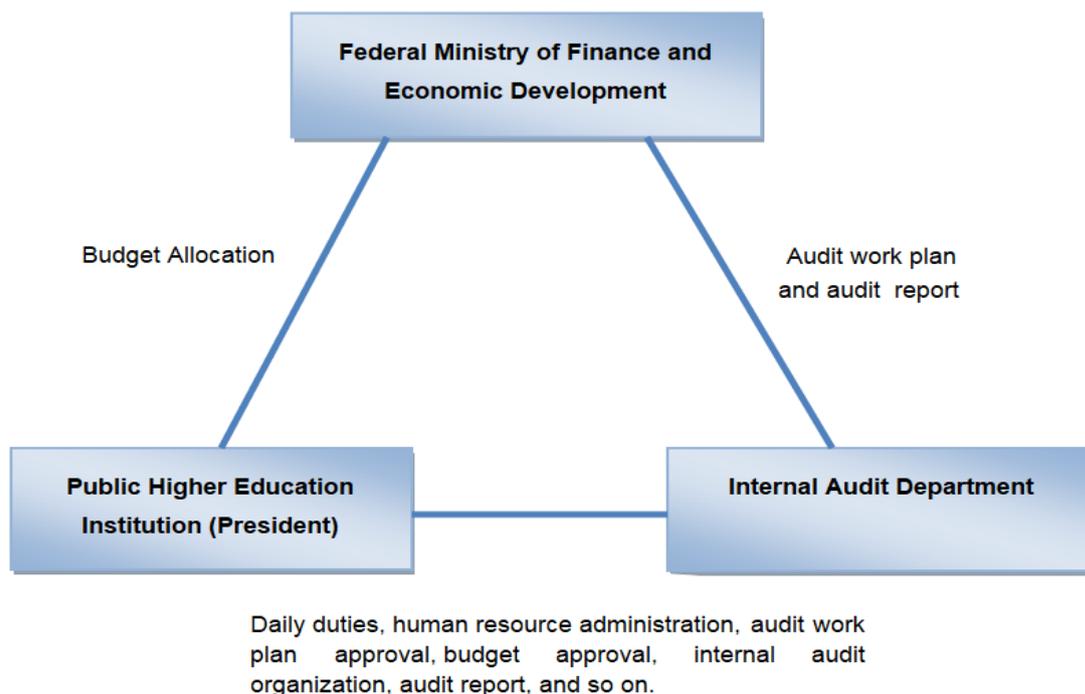
Internal Audit Planning Preparation and Presentation Schedule:

Each public higher education institution internal audit department shall prepare its annual plan based on the institutional strategic plan and management document. The annual plan shall be prepared in every budget year and presented to the President of the university and submitted to the Federal Ministry of Finance and Economic Development up to June 27. The audit plan developed by the internal audit departments of the public higher education institutions should contain the purpose of the plan, goal, the major tasks to be performed, performance status, expected results, and maintain a system for monitoring and evaluation. The annual plan shall be prepared in accordance with the schedule prepared by the Federal Ministry of Finance and Economic Development. If adjustment is necessary on the plan it should be made quarterly and sent to the Ministry of Finance and Economic Development.

Internal Audit Reporting Preparation and Presentation Schedule:

The audit report should be related to the audit plan, and it also should be prepared in accordance with the audit reporting procedures. The quarterly audit report should be submitted to the President of the university at the same time copy to the Federal Ministry of Finance and Economic Development after signing by the internal audit department director in accordance with the following schedule, i.e. in accordance with the Ethiopian calendar, the first quarter should be until the 30th day of October, the second quarter should be until the 30th day of January, the third quarter should be until the 30th day of April and the fourth quarter should be until the 15th day of August. The summary of the Federal Government Internal Auditors Directive No.7/2010 has been presented in Figure 1.

Figure 1: Summary of the Federal Government Internal Auditors Directive No. 7/2010.



Limitations of the Federal Government Internal Auditors Directive No. 7/2010:

The Presidents of the public higher education institutions were responsible for the human resources administration and daily duties of the internal audit department. On the other hand, related to human resources administration and daily duties, the internal audit department was accountable to the President of the university. These responsibilities or accountabilities have a great influence on the independence of the internal audit department because the Presidents have the power to hire and remove the internal auditors of the institution. Moreover, the directive did not contain any rules and regulations about the internal audit charter and the audit committee of the public institutions.

Perspectives of the Federal Government Internal Auditors Directive No. 47/2016:

The effective date of the Federal Government Internal Auditors Directive No. 47/2016 was from the 25th day of October 2016. The explanations of the directive are presented as follows.

Accountability of Internal Audit Department:

Related to the human resources administration, such as recruitment, employment, promotion, transfer, performance evaluation, permits, resignation, training, work experience, social security disciplinary measures, and so on, the internal audit department is accountable to the Federal Ministry of Finance and Economic Cooperation. But, related to daily duties, such as work entry and exit time, audit work plan approval, budget approval, salary payment, assigning supporting staff (like cleaners, dispatchers, etc.), and so on, the internal audit department is accountable to the President of the university. Moreover, the internal audit department of the public higher education institution should submit the audit report directly to the institution President and copy to the Federal Ministry of Finance and Economic Cooperation.

Duties and Responsibilities of the Federal Ministry of Finance and Economic Cooperation:

Duties and responsibilities of the Federal Ministry of Finance and Economic Cooperation related to the internal audit department are as under: Decides the internal audit organization of the Federal budget institutions and the universities according to their scope of work, budget allocated to them, the size of the property they manage in consultation with the Federal Ministry of Public service and Human Resource Development; assigns and dismisses the internal audit director and professionals of the institutions; before it appoints the internal auditors to the public higher education institutions, it ensures the applicant professional qualification; ensure the required professional qualifications of the internal auditors assigned to the public higher education institutions by assessing their educational background, their relevant work experience and training they have received in connection with the work; weighs the performance of internal audit director of each public higher education institutions; hires internal auditors, provides rankings and generally manages the human resources of internal audit staff of public higher education institutions; transfers internal auditors from one public higher education institution to another; cause and maintain close resolve in cases of disagreements between the internal audit department and the public higher education institution body; develops, modifies and monitors the policies, standards and procedures of internal audit of public higher education institutions; maintains the internal audit staff records and special information by using modern information technology, and provides periodic personnel information service by implementing modern and efficient information management systems; ensures the timely updating of human resource planning information of internal audit department of the institution by identifying and analyzing the type and quantity of occupations based on human resources demand; by undertaking assessment related to training needs of internal audit department staffs, it organizes short and long-term training; maintains training budget, builds capacity of internal audit staff by providing short and long term training; periodically evaluates the outcome of the training on the public higher education institutions and takes measures by identifying their strengths and weaknesses; implement the social security issues of internal auditors of the institution accordance with the applicable law; and investigate complaints and discipline issues of internal audit personnel and make decisions accordance with Federal Civil Servants Disciplinary and Grievance Procedure Council of Ministers Regulations No. 77/2002.

Duties and Responsibilities of Public Higher Education Institutions:

The duties and responsibilities of the public higher education institutions related to the internal audit department are: Creating a conducive working environment and healthy working relationships for the internal audit departments and establish appropriate offices; properly allocating office management assistants and other supporting staffs like cleaners, dispatchers, etc.; ensuring the internal audit staffs benefits, as other staff benefits; paid the salary of the internal audit department employees; allocating a reasonable operating budget for the work, and adequately meet the necessary equipment; overseeing the overall performance of the internal audit department, supervising the work entry and exit time of the internal audit staffs and report to the Ministry on a quarterly basis; and providing appropriate close support for effective audit activities.

Duties and Responsibilities of Internal Audit Department:

The duties and the responsibilities of the internal audit department of the public higher education institutions are: Preparing the internal audit department's budgeting needs and provides to the institution for the approval; organizing the details internal audit personnel; evaluating the performance of the internal audit department staffs in every half year and send the results to the Federal Ministry of Finance and Economic Cooperation; receiving, evaluating and providing feedback an audit report of the branch internal audit department and merge with the head office report, and submit the report to the President of the university at the address and to the Federal Ministry of Finance and Economic Cooperation; identifying the vacant position of internal audit department and notify the Federal Ministry of Finance and Economic Cooperation to complete it by employment or promotion or transfer; based on the government working hours, internal audit department director supervises the working hours of the employees at his/her office, then notify in writing by the end of each month that the employees are active and inactive to the concerned department for the payment of salary; and preparing an audit work plan and audit report of the department as set forth in the Federal Government Internal Audit Directive No. 7/2010.

Employment of Internal Auditors:

The Federal Ministry of Finance and Economic Cooperation issued the following regulations to hire internal auditors of the public higher education institutions in Ethiopia. These regulations are important to assure the independence of the internal auditors in the institutions. First, the employment of internal audit staff of the public

higher education institutions should conduct in accordance with the guidelines of the Federal Ministry of Public service and Human Resource Development. Second, the Federal Ministry of Finance and Economic Cooperation periodically hires the internal auditors at the central office after identifying the number of vacancies of the internal audit department in the public higher education institutions and assigns them to the institutions. Third, where there is a need for hiring internal auditors in the public higher education institutions, according to the condition the Federal Ministry of Finance and Economic Cooperation may delegate the institution for all the recruitment procedures. But it will be approved by the Federal Ministry of Finance and Economic Cooperation. Fourth, the Federal Ministry of Finance and Economic Cooperation conduct an awareness-raising workshop to give a good understanding of the new recruited internal auditors before directly start their job.

Level of Development of Internal Auditors:

The Federal Ministry of Finance and Economic Cooperation issued the following regulations related to the level of development of internal auditors of the public higher education institutions. These regulations are also important to assure the independence of the internal auditors in the institutions. Level of promotion of internal auditors of Ethiopian public higher education institutions shall be conducted in accordance with the guidelines of the Federal Ministry of Public service and Human Resource Development; where there is a need for hiring of internal auditors in the public institution, according to the condition the Federal Ministry of Finance and Economic Cooperation may delegate the institution for all the recruitment procedures. But it will be approved by the Federal Ministry of Finance and Economic Cooperation; if the institution does not find the candidates for the level of promotion in the institution, the institution shall inform the Federal Ministry of Finance and Economic Cooperation; the Federal Ministry of Finance and Economic Cooperation has collected the vacancy positions from institutions that could not meet the level of promotion, and ensure the notice of the progress to be posted on the internal boards of the institutions on behalf of the internal audit department and also posted on the Federal Ministry of Finance and Economic Cooperation website, then after the registration is completed by the internal audit department of each institution it will be sent to the Federal Ministry of Finance and Economic Cooperation; the Federal Ministry of Finance and Economic Cooperation compares competitors who apply for a promotion and identifies the winner and send them to the institution for the vacant position; only qualified internal audit department employees can compete for the promotion of internal audit vacancies in the institution, and the internal audit department employees of the public institution cannot compete for the promotion in vacancies in other departments within the public institution.

Transfer of Internal Auditors:

Related to the transfer of internal auditors from one department to another department or from one public institution to another public institution, the Federal Ministry of Finance and Economic Cooperation issued the following legal framework. The issued legal framework is important to assure the independence of the internal auditors. Listed below are without prejudice to, the transfer of internal audit personnel shall be conducted in accordance with articles 26 and 28 of the Federal Government Civil Servants Proclamation No. 515/2007; where there is a vacancy in the internal audit department of the public institution, the Federal Ministry of Finance and Economic Cooperation may delegate the Public office for all transfer requirement procedures to identify the winner by issuing a notice and send to the Ministry for the final approval; only the internal audit department employees must apply to the transfer vacancy in the internal audit department of the public institution; and the Federal Ministry of Finance and Economic Cooperation may transfer one internal audit department staff of the public institution to another internal audit department of the public institution by the same level of position and salaries as needed.

Performance Evaluation of Internal Auditors:

The Federal Ministry of Finance and Economic Cooperation decided that the performance of internal auditors of the public higher education institutions in Ethiopia can be evaluated on the basis of the following ways: Internal audit department employees' performance evaluation shall be conducted in accordance with the Federal Ministry of Public service and Human Resource Development Performance evaluation Guidelines; staff performance assessment would be measured on the basis of measures and performance levels based on pre-agreed goals by comparing planning and implementation, and will be measured on the basis of the employee's performance or outcome; the public institution internal audit departments are responsible for ensuring that the performance evaluation of the employees at their department is timely; performance evaluation and decisions based on performance evaluation should be organized in writing form; and the director of the internal audit department of

the public institution by making three copies of the performance evaluation of the employees and submit one to the Federal Ministry of Finance and Economic Cooperation, second to the public institution and the third to be properly organized in the internal audit department.

Miscellaneous Permits of Internal auditors:

Related to miscellaneous permits (such as annual leave and various permissions) of the internal audit department of the public higher education institutions in Ethiopia, the Federal Ministry of Finance and Economic Cooperation issued the following regulations: First, the annual leave and various permissions of the internal audit department staff shall be conducted based on the Federal Civil Servants Proclamation. Second, the annual leave and various permissions of the internal audit department director of the public institution shall be performed by the Federal Ministry of Finance and Economic Cooperation in the consultation with the public institution. Third, the annual leave and other permissions of the internal audit staff of the Public institutions shall be made by the internal audit department director and shall be notified by the copywriting to the Federal Ministry of Finance and Economic Cooperation. Finally, fourth, the responsibility for the transfer of annual leave is the responsibility of the Federal Ministry of Finance and Economic Cooperation.

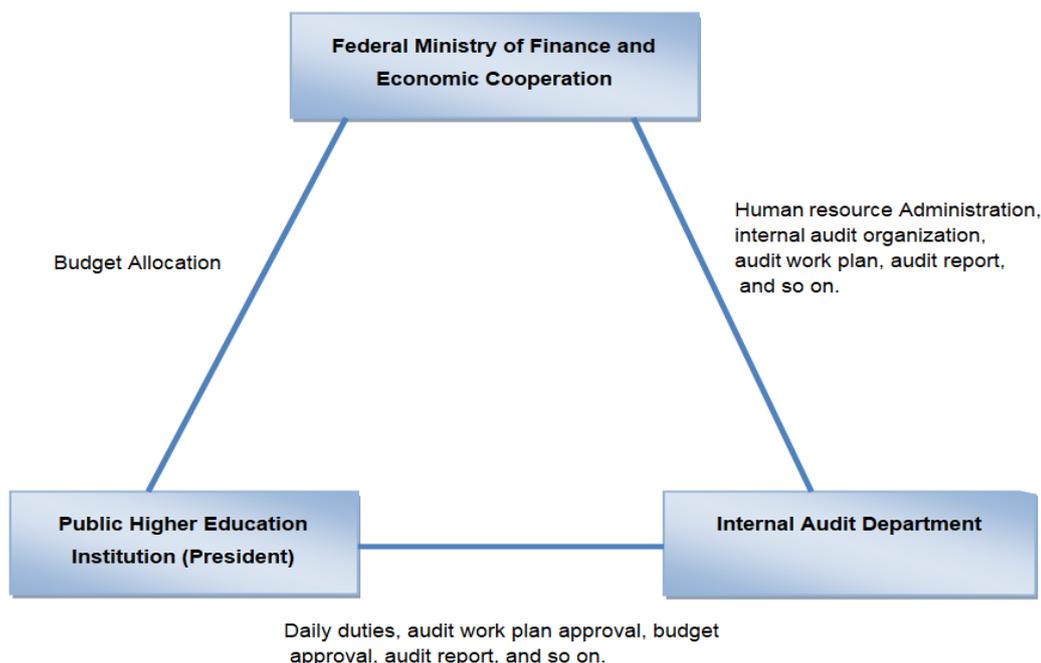
Resignation of Internal Auditors:

The resignation requests of the internal audit department of the public higher education institutions shall be conducted in accordance with the guidelines of the Federal Ministry of Public Service and Human Resource Development. Internal audit employees submit their resignation application letter to the internal audit department director of the institution, and then the director of the internal audit department send the clearance and dismissal application of the employee to the Federal Ministry of Finance and Economic Cooperation, then the Federal Ministry of Finance and Economic Cooperation shall provide the employee with work experience and work clearance by verifying the accuracy of the dispatched clearance of the staff. The internal audit department director of public higher education institutions resignation is handled by the Federal Ministry of Finance and Economic Cooperation.

Work Experience of Internal Auditors:

The internal audit department director shall provide work experience, warranty letters and so on to the internal audit staff when they request letters by verifying their documents. The Federal Ministry of Finance and Economic Cooperation will issue work experience, warranty letters and so on to the director of the internal audit department of the public higher education institution when he/she requests. The summary of the Federal Government Internal Auditors Directive No.47/2016 is presented in Figure 2.

Figure 2: Summary of the Federal Government Internal Auditors Directive No. 47/2016.



Limitations of the Federal Government Internal Auditors Directive No. 47/2016:

In accordance with the Federal Government Internal Auditors Directive No. 47/2016, the internal auditors of the public institution cannot compete for the promotion and transfer vacancy in other departments within the institution. On the other hand, only the internal audit department employees must apply to the promotion and transfer vacancy in the internal audit department of the public institution. That is, internal auditors cannot participate in the audit activities in the operation of which they were responsible previously. This is important for the objectivity of the internal auditors. Although this legal framework was good for the objectivity of the internal auditors, but it exposes the universities for employee turnover without any salaries and benefit adjustment. By supporting this finding, all interview respondents stated that the current legal framework, the Federal Government Internal Auditors Directive No. 47/2016, of the public higher education institutions does not allow the internal auditors to compete for the promotion and transfer vacancy in other departments. As a result of this, the universities exposed for high employee turnover. Also, interview respondents stated that although the Federal Ministry of Finance and Economic Cooperation promised to increase the salary of the internal auditors, as a compensation for being banned from competitions for other positions in other departments because of this legal framework, but the promise is not yet implemented. Moreover, the legal framework or the directive did not contain any rules and regulations about the internal audit charter and the audit committee of the public institutions. Regarding the internal audit charter and audit committee, all interview respondents commented that there was no internal audit charter and audit committee in the universities.

The Difference Between the Federal Government Internal Auditors Directive No. 7/2010 and the Federal Government Internal Auditors Directive No. 47/2016:

The main differences between the two directives are: First, in accordance with the Federal Government Internal Auditors Directive No. 7/2010, the President of the public higher education institution were responsible for both human resources administration and daily duties of the internal audit department, but in accordance with the Federal Government Internal Auditors Directive No. 47/2016, the President is responsible only for the daily duties of the internal audit department. That means, in accordance with the Federal Government Internal Auditors Directive No. 47/2016, the Federal Ministry of Finance and Economic Cooperation is responsible for the human resources administration of the internal audit department. Second, in accordance with the Federal Government Internal Auditors Directive No. 7/2010, the internal auditors of the public institution can compete for the promotion and transfer vacancy in other departments within the institution, but it is not allowed in accordance with the Federal Government Internal Auditors Directive No. 47/2016.

CONCLUSION:

To conclude with the main findings, it covers the conclusion of the current legal framework of internal auditing in Ethiopian public higher education institutions. That is, it contains the conclusion of the Federal Government Internal Auditors Directive No. 7/2010 and the Federal Government Internal Auditors Directive No. 47/2016.

Regarding the Federal Government Internal Auditors Directive No. 7/2010, the Presidents of the public higher education institutions were responsible for the human resource administration (recruitment, employment, promotion, transfer, performance evaluation, permits, resignation, training, work experience, social security disciplinary measures, and so on), internal audit organization, and daily duties (supervising work entry and exit time, audit work plan approval, budget approval, salary payment, assigning supporting staff, and so on) of the internal audit department of the institution. The internal audit department of the public higher education institution submit the audit report directly to the institution President and copy to the Federal Ministry of Finance and Economic Development. The legal framework or directive allowed the internal auditors of the public institution to compete for the promotion and transfer vacancy in other departments within the institution. The legal framework or directive also stated that the President of the university should be notified to the Federal Ministry of Finance and Economic Development the corrective action taken in accordance with the audit report within 30 days from the date of delivery. The annual budget of the public higher education institutions in Ethiopia is allocated through the Federal Ministry of Finance and Economic Development. Moreover, the legal framework or the directive did not contain any rules and regulations about the internal audit charter and the audit committee of the public institutions.

Regarding the Federal Government Internal Auditors Directive No. 47/2016, the Ministry of Finance and Economic Cooperation of the country is responsible for the human resource administration (recruitment, employment, promotion, transfer, performance evaluation, permits, resignation, training, work experience, social security disciplinary measures, and so on) and internal audit organization of the internal audit department of

public higher education institutions. But for the daily duties (supervising work entry and exit time, audit work plan approval, budget approval, salary payment, assign supporting staff, and so on), the President of the university is responsible for the internal audit department of the institution. The internal audit department of the public higher education institution submit the audit report directly to the institution President and copy to the Federal Ministry of Finance and Economic Cooperation. The internal auditors of the public institution cannot compete for the promotion and transfer vacancy in other departments within the institution. The annual budget of the public higher education institutions in Ethiopia is allocated through the Federal Ministry of Finance and Economic Cooperation. Moreover, the legal framework or the directive did not contain any rules and regulations about the internal audit charter and the audit committee of the public institutions.

Generally, the Federal Government Internal Auditors Directive No. 7/2010 is improved by the Federal Government Internal Auditors Directive No. 47/2016. As a result of this, the Federal Government Internal Auditors Directive No. 47/2016 (Amendment) is better, relative to the Federal Government Internal Auditors Directive No. 7/2010.

CONTRIBUTION OF THE STUDY:

As the literature denoted, there is a lack of literature regarding the internal auditing legal framework. Hence, conducting this study will have a great contribution for existed literature. Moreover, the study uses the Ministry of Finance and Economic Cooperation of the country to understand the limitations of the legal framework and to make appropriate adjustments on it.

FUTURE SCOPE:

The researchers suggests further research to confirm the findings of this study in other institutions and settings, and to improve the findings by minimizing the limitations of the study. Particularly, the researcher suggests future research be conducted on the followings:

- The study focused on the present internal auditing legal framework in Ethiopian public higher education institutions. On the other hand, it does not cover internal auditing practices. Therefore, on the basis of the present internal auditing legal framework and SPPIA, measuring the internal auditing practices of the institutions is another potential area for future research.
- Applying this study in other institutions and settings is important to confirm the possibility of the findings to other institutions and settings because the legal framework of internal auditing vary by purpose, size, structure, legal environment, cultural environment, and also by persons within and outside the organization.

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COMPETING INTEREST STATEMENT:

The authors declared no conflict of interest.

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