



**Assessing the Challenges facing External Auditors Auditing
Public Enterprises in Ethiopia; the case of Auditors of Audit
Service Corporation**

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Mekelle, Ethiopia

DECLARATION

I, Feven Antonious, hereby declare that the thesis entitled “Assessing the Challenges facing External Auditors Auditing Public Enterprises in Ethiopia; the case of Auditors of Audit Service Corporation”, submitted by me in partial fulfillment of the requirements for the award of the Degree of Master of Art in Accounting and Auditing to the College of Business and Economics, Mekelle University, through the department of Accounting and Finance, under the supervision and guidance of Mr. Yitbarek Abrha (Assistant Professor), is my original work and has not been presented for the award of any other Degree, Diploma or fellowship of any other university or institution, and all sorts of materials used for the thesis had been duly acknowledged.

Sincerely,

Feven Antonious

Signature.....

Date

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CERTIFICATION

This is to certify that this thesis entitled “Assessing the Challenges facing External Auditors Auditing Public Enterprises in Ethiopia; the case of Auditors of Audit Service Corporation” submitted in partial fulfillment of the requirements for the award of the degree of Master of Art in Accounting and Auditing to the College of Business and Economics, Mekelle University, through the department of Accounting and Finance, done by Feven Antonious ID. No. CBE/PE/256/10AA is an authentic work carried out by her under my supervision and guidance. The manuscript of the thesis has been thoroughly scrutinized by me in view of the requirements of the regulations of the University.

To the best of my knowledge, this thesis does not contain any conjoint research work with us or with anyone else. The final copy of the thesis which is now being submitted to the University has been carefully read for its material and language, and she has completed her research work to my entire satisfaction.

I also confirm that to the best of my knowledge, the entire thesis comprises the candidate’s own piece of original research work.

Thus, the thesis is worthy of consideration for the award of MA Degree in Accounting and Auditing.

Sincerely,

Yitbarek Abrha (Asst. Professor)

Signature.....

Date

Mekelle, Ethiopia

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Feven Antonious

Date

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List of Acronyms

ASC - Audit Service Corporation

FAG- Federal Auditor General

LCD - Least Developed Countries

GDP - Gross Domestic Product

GTP - Growth and Transformation Plan

PEs - Public Enterprises

SOE- State-Owned Enterprises

Abstract

This research explores the major challenges faced by external auditors in auditing public enterprises, specifically focusing on the Auditors of Audit Service Corporation (ASC). Utilizing a descriptive survey research design, the study employs a quantitative methods approach. The quantitative aspect involves the use of structured questionnaires distributed to 95 ASC audit directorate staff whereas 93 questionnaires were returned. Data analysis is conducted using SPSS version 20, presenting results through frequency tables and summary statistics. Key findings reveal significant challenges such as lack of cooperation from management, difficulties in obtaining necessary documentation, complexity of regulations, issues with internal controls, and political influences affecting audit objectivity. Additionally, resource constraints, challenges in assessing risk management practices, and resistance from public enterprises are highlighted. The role of external audit committees, training adequacy, and the impact of technology on mitigating audit challenges are also examined. Results show significant challenges, including resistance from management, difficulties in obtaining documentation, complex regulatory environments, issues with internal controls, and political influences on audit objectivity. The study underscores the need for improved methodologies, regulatory framework changes, and enhanced training programs to better equip auditors in addressing these challenges effectively. Overall, the research provides a comprehensive understanding of the obstacles faced by external auditors in auditing public enterprises and offers recommendations for enhancing the audit process.

Key words: Audit challenges, Public enterprises

Chapter One

1. Introduction

This chapter presents the introduction which Start with a brief background of the study, the research problem, and its objectives, clearly state the significance of the research, scope of the study. End with an outline of the chapter structure.

1.1 Background of the study

Several Public Enterprises (PEs) are created particularly after World War II in both developing and developed countries for different reasons (Haque, M. S. (2007). They are created in order to address; market deficits, promote economic development, removal of regional imbalance and wealth concentration, provide goods and service at a lower cost, address market deficiency, reduce unemployment and control national economy thriving for social good are some contributions of State-Owned Enterprises (SOEs). The term Public Enterprise (PE) depicts two dimensions which are purely regulatory public entities and purely commercial. These will make PEs to have doubled face in characteristics and purpose of their establishment (Ali, J. 2016).

In Ethiopia, the emergence of public enterprise sector is in the early twentieth century with no clear economic policy of the state. During that time, the state established some enterprises to somehow satisfy its growing administrative needs. The enterprises were established jointly by the Ethiopian state and foreigners. The state Bank of Ethiopia and the Ethio-Djibouti Railway Enterprise can be good examples (Dagnachew and Addisie, 2009). PEs has passed through different passages that are imperialist, socialist and post - socialist regime in Ethiopia with different concepts and structures. The current Ethiopian government recent policy is urging to privatize some of the state owned enterprises in Ethiopia. (Mekdes & Mesfin 2018) referred such derive is indeed a political decision and requires a major shift in policy at the highest executive organ of the government or requires the amendment of existing laws. Essential services currently like electricity, telecommunications, shipping and logistics, public education, public transport, public health service are also owned by the state.

PEs do not fulfill their purpose in economic development due to corruption, management inefficiencies and overstaffing. In addition to management deficits many PEs also suffered from technological shortcoming imported through either foreign aid or soft loans from abroad, many of the PEs were either equipped with low or second grade machineries contributing to low capital/output ratio, or were established without due regard to their economic and financial sustainability (expert group meeting UN; 2005). A major problem in managing funds and resources in the public sector is the possibility of misuse, fraud, and corruption. Auditors' main concerns are to evaluate various controls, investigate practical work alignment with work standards, and inspect any irregularity in the organization.

However, in recent times the independence of auditors is questioned due to the corporate scandals reported in government and private Medias. It is common to hear that government institutions misappropriate billions of Birr or resources through different media. However, the Administration has failed to take action against institutions that have not managed to use their budgets appropriately. When confronted, the leaders of these establishments come up with one excuse after another (Samson, 2017). In Ethiopia there are no reported scandals that involve auditors (Bayou, 2017). However, PEs have always been criticized of their structure, management and control.

In many countries external audit is a separate organization, independent from the government having the mandate of investigating and auditing public sectors or government activities, and then reporting their findings to legislature commonly to the public. In Ethiopia the role of auditing the PEs is under the mandate of Audit Service Corporation (ASC). ASC acts as an external audit for the PEs in Ethiopia. The Corporation's mandate emanated from that of the Federal Auditor General's (FAG's) who under the constitution is responsible for auditing the financial statements produced by all Federal Government Offices & Organizations and reporting the results to the Government. About 112 public sector business organizations and agencies are audited by the ASC regularly. Their clients include a wide range of organizations with various sizes in all sectors of the economy such as Ethiopian Airlines, Commercial Bank of Ethiopia, Ethiopian Road Authority, Ethiopian Electric Power, Ethiopian Railways Corporation and Ethio Telecom (ASC, n.d). The objective of the corporation is strengthening of accountability and good governance in the management by providing independent and objective audit and related

services to public sector. One of the corporation's main tasks is reviewing the accounting and internal control systems of the entities being audited and determining the nature and extent of audit tests that should be performed (ASC, n.d).

Therefore, the researcher believes it is essential to study the challenges of auditing PEs..The paper is important to trace the challenges faced by the auditors when auditing and to better communicate it with the respected stakeholders. It also helps legislature bodies to understand the challenges emanated due to irregularities in the statute. The researcher also believes studying the challenges of auditor's staff of the Audit Service Corporation, as the corporation have massive experience in auditing the PEs, will give insight for law makers, board members of PEs, auditors in the field and anyone who is interested to understand the challenges in the profession. The study has focused on the challenges of auditing PEs, particularly Audit Service Corporation's (ASC) staffs who audit PEs. As far as the researcher's knowledge there are no studies undertaken to examine the challenge of Auditors auditing PEs.

1.2. Statement of the Problem

Audit challenges have significantly impacted the performance of Public Enterprises (PEs) in Ethiopia. Despite their historically critical role in the Ethiopian economy, contributing 16% to GDP in 2003, their share drastically declined to 6% by 2008 (World Bank). Such a decline raises concerns about their inefficiency and the failure to identify and resolve underlying problems. PEs were envisioned to contribute 45% of the financing for the Growth and Transformation Plan II (2010–2020), yet their diminished economic impact highlights gaps in accountability and governance (Mekdes & Mesfin, 2018).

One critical issue lies in the structural and management challenges within these enterprises. The Public Enterprise Proclamation assigns substantial authority to government bodies, such as the appointment of two-thirds of board members and control over major decisions (Henok & Viseer, 2019). This government involvement could undermine audit independence and contribute to discrepancies in governance and financial transparency.

Furthermore, the 2016 proclamation shifted the reporting relationship of the Audit Services Corporation (ASC), requiring it to report to the Federal Auditor General (FAG) instead of

Parliament. While this change aimed to enhance oversight, it also created new challenges in reporting relationships and compliance with audit standards. Additionally, directives issued by various government organs often lead to inconsistencies, further complicating the auditing process.

The ASC, with only 95 auditors, faces significant challenges in delivering effective audits for PEs. These include limited staff capacity, repetitive audit tasks, lack of professional development, and inadequate audit findings. Auditors may also face pressures such as job insecurity, which can hinder their independence and objectivity.

Irregularities such as fraud, ghost payments, and flawed bookkeeping have been repeatedly identified in audit reports by the Federal Auditor General's Office (Samson, 2017). Despite their critical role in detecting such issues, auditors in Ethiopia continue to face significant obstacles in producing qualified reports and addressing systemic problems in PEs.

This study aims to investigate the challenges auditors face in auditing Ethiopian PEs. By addressing these issues, the study seeks to identify practical solutions to enhance audit quality, improve PE performance, and ensure better economic contributions. The findings will benefit policymakers, auditors, and stakeholders by providing insights into governance reforms, improving accountability, and supporting Ethiopia's economic development.

1.3. Research Objective

1.3.1. General Objective

The main objective of this study was to examine challenges facing audit staff of Audit Service Corporation in auditing PEs in Ethiopia.

1.3.2. Specific Objectives

The specific objectives of the study were to;

- Ascertain whether structure, management and control of PEs pose a challenge to the auditors
- Examine whether the reporting relationship of ASC with FAG is a challenge in auditing PEs

- Determine whether improper segregation of rules, regulation, and proclamation of the PE's pose a challenge to the auditors
- Assess whether independency, competency and size of auditors of ASC pose a challenge to the auditors

1.4. Significance of the Study

This research has examined the challenges of auditors posed due to different incidences in auditing PEs. The study has inspected whether management, control and structure of PE, the reporting relationship, competency and the size of auditors pose a challenge on auditors. The finding of this study will help State-Owned Enterprises (SOEs) to understand the challenges of the auditors due to the set up designed on their respected institutions like the structure, management & control, and the reporting relationship. Furthermore, this paper has studied if the improper segregation of rules, regulation, directives and policy pose a challenge to auditors. Therefore, it will show the gap for law makers. It will also help Federal Auditor General (FAG) to comprehend the new reporting relationship that ASC will have with FAG and will bring a smooth transition as well as better understanding to solve problems that may arise in regards to auditing. As ASC is the important organ auditing PEs in Ethiopia the understanding will help to exploit the best way to increase audit quality and arrange best platforms for auditors to give independent opinion so that SOEs will contribute to balance the economy and play important role in social, developmental of the state.

In addition, the study will contribute to build a culture of challenge with technical judgment to challenge, develop shared believes that the organization will support staffs who have been challenged and normalize challenges. It contributes informing policy makers, regulators and auditors to enhance audit quality that helps to achieve organizational goals. The study will also play on key priorities for the development of proclamation gaps and professional gaps in the profession. Auditors will understand their dynamic challenges and will help them to be part of a solution. Besides, the study will significantly contribute Audit Service Corporation (ASC) in dealing with the auditor staffs and their customer which are PEs to promote public confidence in the state.

1.5. Scope of the Study

The research seeks to assess the challenges of the audit staff in ASC. Limited access to comprehensive data and varying regulatory frameworks may constrain the study's scope. Researcher bias, the complexity of public enterprises, and external economic, political, and social factors further complicate the analysis. Additionally, focusing solely on ASC may overlook challenges specific to other organizations, even within the same sector.

1.6. Limitation of the Study

The study is limited to Public Enterprises (PEs) in Ethiopia, restricting its generalization to other sectors. It faces challenges such as data access constraints, small sample size, and time limitations, which hinder comprehensive analysis. Participant bias due to fear of reprisal and the lack of prior studies on Ethiopian PEs further constrain the study. Despite these limitations, it provides valuable insights into audit challenges and proposes actionable recommendations.

1.7. Organization of the Paper

This paper takes the following form: The first chapter is introductory which consists of background of the study, statement of the problem, objectives of the study, significance of the study, and scope and limitation of the study. The second chapter provides the related summary of literature review on Challenges of External Auditors Auditing Public Enterprises and empirical evidences related to the study. Chapter three presents research methodology, research design, data type and method of data collection, sampling technique, and the method of data analysis. Chapter four presents data analysis and study results. The last chapter, chapter five, provides conclusions and recommendations of the study.

Chapter Two

2. Literature review

This chapter is committed for reviewing related literature and it is presented in two parts: theoretical review and empirical review.

2.1. Theoretical review

This part will shed light on theory of different scholars in relation to the topic. The researcher will try to discuss certain concepts and questions that could answer the research question and that could give a ground for achieving the research objectives of the study.

2.1.1. Public Enterprises Definition and General Overview of PEs in Ethiopia

2.1.1.1. Definition of Public Enterprises

According to Dagnachew and Addisie (2009), PEs definition lies on the term itself. ‘Public’ and ‘enterprises’ by splitting the phrase into two parts: they are the enterprise dimension and the public dimension, in which the ‘enterprise’ aspects are engaged in the production of goods or provision of service which is marketed at a price with the assumption of at least covering the cost. Two books of account are needed. One is a balance sheet which shows, at any given point of time, the assets and liabilities of the enterprise. The other is a profit and loss account which describes for a defined period of time, usually a year, the inflow of income and the outflow of expenditure, resulting either in surplus or deficit. On the other hand, the ‘public’ dimensions are the public ownership character which is vested from public authority. In the case of partial ownership, if the government owns majority shareholdings still it can be considered as a public owned company. An entity with minority shareholdings can also be considered as a state-owned enterprise. Another author Prahlad (in Tewodros, 2014) also defined PEs as ‘Any commercial, financial, industrial, agricultural or promotional undertaking – owned by public authority, either wholly or through majority shareholding – which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts.

2.1.1.2. General Overview of PEs in Ethiopia

Since the 1930s and particularly after World War II, numerous State Owned Enterprises (SOEs), also called PEs (PEs), were created in both developed and developing countries to address market deficits and capital short-falls, promote economic development, reduce mass unemployment and/or ensure national control over the overall direction of the economy, especially in developing countries (expert group meeting UN, 2005). The attempt to modernization in Ethiopia has left a print in emergence of PEs in the country. One of the few enterprises can be recalled the first bank of Ethiopia which is established between the Ethiopian state and foreigners and Ethio-Djibouti railway Enterprise. According to Dagnachew and Addisie; (2009), the history of PEs is classified into three eras- the Imperial regime of Emperor Haile Sellassie, the socialist Regime, and post-1991 onwards. The imperial regime is characterized by the rising of different enterprises, like banks, hotels, shipping lines, etc, owned by the state owned or partially owned with the foreigners. However, most of the shares and joint venturing were with foreigners and domestic private capital was almost non-existent.

The end of the imperial regime was followed by the Socialist Regime. PEs continued to be legally formed such as; National Textile, Ethiopian Printing, Ethiopian Food, National Metal, Ethiopian Liquors, Leather and Shoe, Fiber Works, Ethiopian Salts, National Soap, Ethiopian Building Materials, Rift Valley Agricultural Development, Harerge Agricultural Development, National Transport, etc (Aweke, 2011). The regime is characterized by an absolute control and ownership which results in nationalizing of even the rising private sectors. These results in dramatic increases of PEs in the country, but many of them except the Ethiopian Airlines were an example of a failure.

The post-1991 period and onwards is distinguished by the essence of mixed governmental and venturing with the private capital owners. The transition government has announced the free market economy and encouraged the private sectors. Legislation was ratified in converting PEs to commercial units and privatization of PEs. Public Enterprise Proclamation No 25/1992 (“PE Proclamation”) and the Privatization of PEs Proclamation No. 146/1998 (“Privatization Proclamation”) are one of the key statute tools for the measurement taken by the government. Over the past few years from 2011- 2017 (GTP I and II) that is Ethiopia has achieved significant

economic growth and records average growth rates up to 10 percent a year¹. Privatization in developing economies is debatable, among the arguments against the move of privatizations are potential domination or monopoly by big companies, public utilities will fall to private companies who has the aim to maximize profit all the time, create imbalances of resource distribution among the rich and the poor, indirect political and economic influence or interference by foreign companies and others will make the issue of privatization to be dealt carefully (Ministry of Finance and Economic Cooperation, 2017).

The term ‘Public Enterprise’ in Ethiopian law is defined as wholly or partially state-owned entity established in accordance with the PE Proclamation No. 25/1992, share company that is 100% owned by the government, entity designated by the government as a PE. PEs should be established under proclamation. The proclamation sets the legal framework for entities established by the State for the purpose of economic activities. The requirements for their formation, operation, structure, and exit are embodied in the proclamation (Tewodros, 2014).

In Ethiopia, the Council of Ministers has a wide-ranging power with respect to the supervision of PEs such as; establish a PE, allocate the capital of the PE, assign a supervising authority for the PE, dissolve a PE, determine the amalgamation or division of a PE, determine the establishment of a PE as a business organization under the Commercial Code, determine the sale of an enterprise, the transfer of an enterprise or its management in any manner, decide on the sale of shares held by the government. Supervisory authority is chosen by the government with the obligation to oversee PEs. The PE Proclamation defines a supervisory authority as an entity to be designated by the Council of Ministers with a view to protecting the ownership interest of the State. The supervisory authority is required to be assigned in the regulation establishing the particular PE (Mekdes and Mesfin, 2018). According to Desalegn and Aderajew (2007), it should be noted that there are commonalities in policies, procedures and organizational contexts of most public sector entities in Ethiopia and the same internal audit manual is used by all public bodies in Ethiopia (Ministry of Finance and Economic Development, 2004). The Ministry has issued a manual that contains a code of ethics for internal auditors and procedural guidance on the conduct of audits (Ministry of Finance and Economic Development, 2004).

¹ Federal Democratic Republic of Ethiopia, Growth and Transformational Plan II (2015/16 – 2019/20)

2.1.2. Why Need Auditing in PEs?

PEs play an important role in countries' economy. Any advancement or improvement in the scheme will have positive impact in economic growth and in balancing the market. To enhance the benefit of PEs in promoting economic growth and stability there should be an organ that can assert high-quality audits support for financial stability. The responsibility for performing quality audits of financial statements rests with the auditors. A true and fair financial statements examined by an independent auditor will let government combat the massive infrastructural challenges and balance the necessary finance to execute projects that are meaningful for the economy.

Different scholars have explained why we need auditing. Aikins (in Amina, 2016) emphasize Auditing is very essential because it is concerned on the evaluation of various controls, examining deviation from applicable standards and any instance or act of irregularity, inefficiency and ineffectiveness with the motive of taking corrective action. Auditing in PEs promote good governance by increasing citizens' ability to hold and make their public entity responsible, accountable and credible. Arens, Elder et al (2010) assert that 'It is essential that the client and external financial statement users have confidence in the quality of audits and other services. If users of services do not have confidence in physicians, judges, or CPAs, the ability of those professionals to serve clients and the public effectively is diminished'.

Auditing eliminates or reduces corruption, assures effective use of funds and resources, contributes good governance, creates an effective internal control system that has a greater impact in achieving organization goal and promoting accountability and transparency. Boynton and Johnson (in LR Monkwe, 2016) remarked that, the demand for auditing has been influenced by professional managers that mislead stakeholders by materially misstating the financial performance of their organizations' financial statements. Consequently, Marx et al (in LR Monkwe, 2016) depict that the users of financial statements started looking for independent auditors to provide reports for reassurance concerning the consistency of financial reports and their conformance to Generally Accepted Accounting Principles (GAAP).

According to IIA (2012), the public sector auditor's role supports the governance responsibilities of oversight, insight and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists

decision-makers by providing an independent assessment of public sector programs, policies, operations and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations and advisory services and fulfill each of these roles. The question will be what are the challenges of auditors that hamper them from performing effective job?

2.1.3. Challenges of Auditing in PEs

The nature and the characteristics of auditing in PEs is a complicated process similarly to public sectors. Chambers (2017) asserts that “government auditors as a breed apart because of the unique challenges, which is expressed in firstly the specific mission government auditors have, which is guarding public trust; secondly the broad group of stakeholders one has to serve, being institutions, citizens, media; and thirdly in the comprehensiveness government auditors have to approach their audit topics compared with corporate sector auditors, which requires a highly methodological approach”. Likewise, Crampton (2020) pointed out three key challenges associated with auditing in government level first; turnover and outsiders - meaning turnover in public sector is high seldom leaves executives to last for two years which leads newly appointed officials often come from outside departments or agencies. This means officials frequently don’t have a firm grasp understanding on all the risks and challenges associated with their position, which can lead to poor decision making. The second issue is; Metrics for success - In the private sector, business objectives are clear and are conducive to metrics: more sales, more customers, more revenue, return on investment, etc. This means it’s extremely easy to determine the efficiency of audit programs and controls. In the public sphere, metrics aren’t as obvious because financial and mission objectives are more complex. This complicates the job immensely. ‘Mission over Risk’ Mindset: Most companies undervalue the importance of risk culture. Departments want to achieve their objectives, and risk management takes a back seat to that. In the public sector, officials are often even more dedicated to and passionate about the mission at hand. Additionally, people tend to assume that government budgets are big enough to bail departments out of bad decisions, which can lead to risky behaviors.

Expert group UN (2005) highlighted the challenges of public sector audit that basically rotate on legislative and regulatory requirements (should be clearly written and define the responsibilities and expectations of the auditors), role clarity (role and reporting lines are not always clear in the

public sector), independence of the auditors (auditors independence should be placed prior to their appointment and should be assessed on ongoing basis), competencies (auditors should have the necessary knowledge, skills & experience and should went to necessary interview to determine their competencies), commitment (adequate dedication and commitment on preparation for meetings, reading documents, following-up procedures are not receiving sufficient attention), and lack of support from management (auditors are challenged to fulfill all their responsibilities to evaluate situations due to the absence of quality information which should be made by managements).

In addition, different scholars have selected parameters of challenges of auditors. Some of them are discussed in this part as follows:

Management, Control and Structure of the Organization as a Challenge

Management control is important in managing any organization. The management board is the highest decision making entity in the PE. It plays a vital role in assuring the execution of budget and policy, utilization of resource in a way that minimizes waste, fraud and management, as well as flow of information for decision making. Amaechi and Francis Egbunike (2017) underscore that auditors contribute to the achievement of organizational goals; need management's commitment to implement recommendations; provide useful recommendations for improvements as necessary; and are affected negatively by lack of attention from management which in turn adversely affects the auditee. In addition, management should be assured that control and structure of the organization is operating in alignment with management philosophy or auditing standard. Mostly in Public sectors and PEs managements & board members are assigned from the government and they will try to act also as political delegates from the government. These will make it difficult for the auditors as the challenge is unique and the stakeholders are wide. As Crampton (2020) stated the turnover is high in the public sector which complicates in understanding the management stand towards organization and strategic plan. According to Ethiopian Public Enterprise Proclamation art 12(6), the term of office of both appointed and elected board members may not be less than three years and no more than five years with the possibility of reappointment or re-election upon expiry.

The other point is structure should be compatible with the financial, logistics, production, operational and marketing requirements of the enterprise. Tewodros (2014) claimed that, a

governmental department is exposed to unrestricted political influence emanating from its structure. It thus lacks flexibility due to bureaucratic delay in decision making. Such delays are, *inter alia*, attributable to undue intervention from civil servants and inadequate autonomy of professional management. Henok and Visser (2019) underline PE's in Ethiopia board members of enterprises are mostly senior members of the ruling party and undermined the integrity of the process of executive appointment. Auditors play an essential pragmatic role in verifying and assessing the irregularities that exist in any organizations. However, auditor's opinion may be challenged or affected by political and economic interests or influences from different aspect or other challenges of the profession. Richard Chambers (cited in Crampton, 2020) emphasize, these professionals deal with career-threatening political risks on a daily basis that many private sector auditors could never comprehend.

Segregation of Rules, Regulations and Proclamation as a Challenge

PEs in Ethiopia are established under the provision of laws and proclamation. They are also required to own a business license to carry out the business activity and register in the commercial register of the Federal government or a regional state. Whenever there is amendment of rules, regulations and proclamations in the operation or structural reporting relationship, expectedly it will arise a challenge due to change. Compliance audit is an instrument that helps the public to know whether funds are used in compliance with laid down rules and policies, and whether the institutions are achieving their goals (Ebimobowei and Binaebi, 2013). Diamond (2002) has also defined compliance audit as a mechanism for assuring that public funds are received and spent in compliance with appropriations and other relevant laws. To determine whether the organization is operating in alignment with rules, regulations and procedures auditors will operate compliance audit. According to Oshisami (in Ebimobowei and Binaebi 2013), compliance audit provides examination of financial statements, accounts and reports and their compliance with applicable regulations to certify that: there are effective controls over revenue, expenditure, assets and liabilities; there are proper accounting records of the resources, operations and burdens; the accounting and financial reports are sufficiently accurate, reliable, timely and useful and fairly represents the transactions, events and conditions reported upon and applicable laws and regulations have been complied with. Commercial Code of Ethiopia has provisions that regulate a company's business transaction in order to consider potential conflicts of interest between the company and their directors (Henok and Visser, 2019). It's expected to

have conflict in an organization and also can be used as an advantage. However, some conflicts because of the rules and regulations or work procedure may result in an accurate audit result. Ramanna (2019) underline that regulations are indispensable to auditing today, and the structure and conduct of regulation plays a first-order role in the behavior of auditors. Hence, regulation in audit is by its nature risk averse.

Independence, Competency and Size of Auditors as a Challenge

According to Samuel (2008), structural problem in the form of assigned task harms the auditor independency that creates fear of losing promotion or job security. Auditors are expected to give their independent and objective audit reporting without being influenced in performing their work. A public accountant is not justified in favor of anyone's interests. The public accountant is obliged to be honest not only to the management and owners of the company, but also to the creditors and other parties who put their trust in the work of the public accountant (St.Ramlah, 2018). Blann (2020) emphasizes that the general standard for auditor independence is fairly simple, but it can prove somewhat complicated to put in practice: The auditor must maintain independence in mental attitude in all matters relating to the audit."

Competency is the skill needed to exhibit and provide adequate performance effectively in a specific post. Both competence and independence deals with set of moral principles or values. An auditor must have the competence and the obligation to maintain professional knowledge and skills on an ongoing basis. With that expected of an auditor can provide better services and the corresponding expectations of users of audited financial statements (Asmara, 2016). According to Accounting Standards Committee (2000) Elements of competence are very considered in the accounting profession, especially the public accounting profession. However the increased number of accounting firms and the payment in the market will affect to maintain competent auditors in the PEs. On the other hand, Lack Mansouri, Pirayesh et al (2009) aver that lack of expertise and experience, forces the auditor to rely on client management in terms of asking questions and assessing responses.

Staffing is crucial meaning having adequate number of auditors and well skilled competent auditors is important. It plays an important role to increase audit quality. If an audit staff didn't have adequate amount of auditors it will have an effect on the quality and their competency which eventually affects the audit quality. According to Amaechi and Francis Egbunike, (2017), the size of audit staff and their competency are the critical characteristics that can't be separated.

2.2. Empirical Review

Scholars had made a research on determining and identifying the challenges of public sector audit, challenges of auditors but limited in researches has been made in our country especially on PEs. In this part the researcher will review study undertaken both in internal audit quality and on performance of PEs.

Several studies have examined the challenges external auditors encounter in auditing public enterprises. Gebre and Tadesse (2020) found that resistance from audited entities, such as lack of cooperation and fear of exposure, poses a significant barrier to effective auditing. Similarly, Tsegaye and Workneh (2019) reported that resistance disrupts the smooth execution of audits, hindering their effectiveness. Kassa et al. (2021) noted that traditional audit methodologies are often insufficient to address the unique complexities of public-sector financial systems. They emphasized the need for methodological improvements tailored to the public sector. In line with this, Wondimu and Lemma (2022) suggested adopting risk-based auditing approaches to enhance efficiency and effectiveness.

A study by Amaechi and Francis Egbunike, (2017) in title ‘An Empirical Examination of Challenges Faced by internal auditors in Public Sector Audit in South –Eastern Nigeria’; the study mainly examined whether independence, compliance with set out rules and regulations of public fund management and improper segregation of duties poses challenges. The finding was independence, rules and regulation poses a challenge to IA whereas, improper segregation of rules and regulations do not pose challenge on auditors. The finding shows that independence is fundamental factor. Another study by LrMonkwe (2016) titled ‘Challenge in Auditing Public Sector; A Case of The North West Department of Education And Sport Development’ finds out auditors encounters numerous challenges like independency (political, political deployment of staff), competency (skill related), understanding the structure (roles and responsibilities of managements and senior managements), staffing (effective human resource management). Tesema (2018) in his research finds out the role of IA for good governance essential components to enhance audit quality are rules and regulation, independent auditors, adequate and competent staff in the public sector. In the contrary research that concerns internal auditors studied by Enofe, Mgbame et al, (2013) underscore that in public sectors elements of IA quality such as

competency, size of internal audit and quality of work performed by IA does not have significant positive influence on management control to provide effective services.

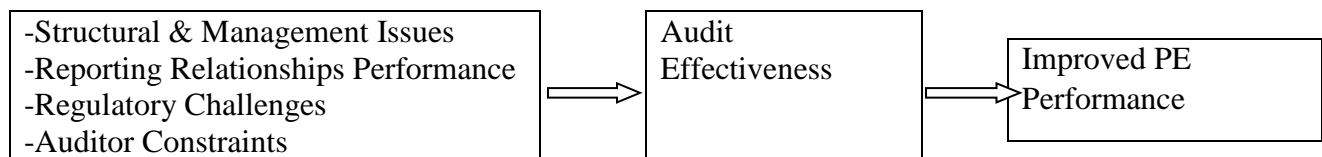
The role of technology in auditing has also been explored. Bekele (2020) highlighted the potential of technological tools, such as data analytics, to improve audit processes and reduce errors. Fikadu and Alemu (2021) further argued that technology fosters transparency and trust between auditors and public enterprises. Internal audits were found to play a supportive role in external audit processes. Demissie and Teshome (2021) observed that internal audits provide essential information for external auditors, particularly in risk assessment and compliance.

Transparency in financial reporting has been identified as a critical factor. Abebe et al. (2020) emphasized that transparent financial reporting reduces discrepancies and enhances auditor confidence. Audit committees were found to be vital in addressing audit challenges. Mengistu and Tadesse (2021) highlighted their oversight role, which strengthens accountability and supports the audit process. Training and professional development were also recognized as crucial. Hailu et al. (2021) noted that continuous professional development improves auditors' skills, while Tadesse (2020) emphasized the need for training programs tailored to public-sector complexities. Finally, regulatory reforms were identified as necessary. Yohannes et al. (2021) called for strengthening financial reporting standards and compliance rules, and Alemayehu and Kifle (2020) stressed the importance of reinforcing auditor independence to ensure unbiased audits.

2.3 Conceptual Framework

A conceptual framework is a visual presentation that explains the variables studied and the Relationship among them. Below is a conceptual framework in figure format that visually outlines the relationship between the challenges faced by auditors and their impact on auditing public enterprises in Ethiopia.

Figure 2: Conceptual framework



Chapter Three

3. Research Methodology

The research methodology outlines the systematic approach used to investigate the challenges faced by auditors in auditing Public Enterprises (PEs) in Ethiopia.

3.1. Research approach

Research approach is plans and procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. It informs the philosophical assumptions the researcher brings to the study; procedures of inquiry; and specific research methods of data collection, analysis, and interpretation. Mixed methods research approach involve collecting and integrating both quantitative and qualitative data and using distinct designs that may involve philosophical assumptions and theoretical frameworks in order to provide more complete understanding of a research problem (Creswell, 2014).

3.2. Research Design

A good research design must be designed in a way which minimize errors and maximize the information that provides or renders. The study employed descriptive survey research design. The researcher chose descriptive research design because the purpose of this design is description of the state of affairs as it exists at present (Kothari, 1990). Quantitative research approach was used for this study. The quantitative aspect involves the use of structured questionnaires distributed to 95 ASC audit directorate staff.

3.3. Data Type and Source

The researcher used primary data sources. Primary data was collected from Auditors employed by Audit Service Corporation using questionnaires comprising close-ended questions.

3.4. Population and Sample

According to Malhotra (1999), population is the aggregate of all the elements that share some common set of characteristics and that comprise the universe for the purpose of the research problem. The population that is being studied is also called target population. The number of

employees in the Audit Service Corporation audit directorate is 95. Hence, as the size is manageable, the researcher decided to use census technique to collect the necessary data from the employees. If census technique is economically attainable it provides detailed information by covering all the population (Smith, J., & Browne, T. 2019).

3.5. Data Collection Methods

The researcher collected data as follows:

- (i) Questionnaire: explanation about the contents...

3.6. Methods of Data Analysis

The statistical package for social science (SPSS) version 20 was used to handle the data analysis task and the data is summarized in frequency tables and figures. The descriptive statistical results are presented through summary of statistics, which includes percentage.

3.7. Ethical considerations

The entire research process was conducted in accordance with ethical standards. Every piece of information gathered from previous studies, text materials and other sources was cited, and the writers of these were appropriately acknowledged. Ethical clearance was granted prior to the start of the research project to ensure that the researcher worked with the chosen respondents at ASC and was comfortable with the manner in which the data for the study was acquired. Without receiving any kind of payment in return for their participation, all respondents were requested to take part voluntarily. Participants were provided with an informed consent form to serve as documentation of their voluntary involvement. The participants received comprehensive information about the study, its purpose, and the measures taken to protect the privacy of the data obtained from them. Before the study's conclusion, each participant had the option to withdraw from it at any time.

Chapter Four

4. Data Analysis and presentation

This chapter presents the outcomes of the research, where the findings are interpreted and analyzed in relation to the research objectives and existing literature.

4.1 Introduction

The findings from the questionnaire conducted are presented in this chapter. Questions used focused on accomplishing the research objectives which inter alia were to clarify and contextualize the construct of the challenges of external auditors in public enterprise. This chapter presents findings first and discussions on the research findings based on the research instruments, integrating the research objectives, literature review and theoretical framework.

4.2 Response Rate of the Population

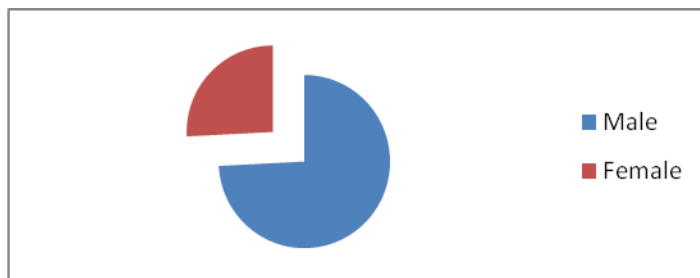
Questionnaire return is the proportion of the questionnaires returned after they have been issued to the respondents. Out of the 95 respondents sampled in the study 93 questionnaires were returned i.e. the 97.89% deemed adequate for data analysis.

4.3. Demographic Information

In a dataset consisting of 93 individuals, the gender distribution is as follows:

- **Females:** 24 individuals, which constitutes approximately 25.81% of the total population.
- **Males:** 69 individuals, making up about 74.19% of the total population.

Figure 1: Gender distribution



Source: Questionnaire, 2021

The pie chart above indicates the gender distribution within the dataset. As indicated most of the respondents are males around 74.19% and the remaining are females.

Table 1 Educational Level

Level of education	Frequency	Percentage
Diploma	0	0.0%
Bachelor Degree	44	47.3%
Master's Degree	49	52.7%
Total	93	100%

Source: Questionnaire, 2021

As indicated in the above table there is no individual with a diploma. 44 individuals hold a bachelor degree making it up 47.3% and 52.7% of them have a master's degree. This indicates that most of the corporation employees are master's degree holder.

Table 2 Job Title/Position

Title	No. of Employees	Percentage
General Manager	1	1.1%
Deputy General Manager	1	1.1%
Audit Directors	3	3.2%
Associate Audit Directors	2	2.1%
Senior Audit Managers	5	5.4%
Audit Managers	3	3.2%
Senior Auditors	28	30.1%
Auditors and Audit Assistants	50	53.8%
Total	93	100%

Source: Questionnaire, 2021

As indicated in the above table the majority of the employees are Auditors and Audit Assistants, making it up 53.8% of the total workforce. Senior Auditors account for 30.1% of the employees.

Other titles, such as General Manager, Deputy General Manager, Audit Directors, Associate Audit Directors, Senior Audit Managers, and Audit Managers, have smaller representations ranging from 1.1% to 5.4%.

Table 3 year of experience in auditing

Years of Experience	Frequency (Number of Auditors)	Percentage (%)
1-5 years	42	45.16%
5-10 years	33	35.48%
Above 10 years	18	19.36%
Total	93	100%

Source: Questionnaire, 2021

The majority of auditors fall into the 1-5 years of experience category, representing approximately 45.16% of the total. This suggests that the auditing profession has a significant influx of newer auditors, which could be indicative of a robust entry-level job market or high turnover rates in the early years. Auditors with 5-10 years of experience make up about 35.48% of the total. The number indicates a good portion of middle layer professionals who have stayed in the field, likely taking on more responsibilities and senior roles. Those with more than 10 years of experience constitute around 19.36% of the total. This smaller proportion of highly experienced auditors could imply a few things: a possible career progression into higher management roles, a shift to other fields, or retirements reducing their numbers.

4.4. Challenges Faced During Auditing

To what extent do you agree that lack of cooperation from management is a significant challenge in auditing public enterprises?

Table 4 Survey Responses on Management Cooperation as a Challenge in Auditing Public Enterprises

Response Category	Frequency	Percentage (%)
Strongly Disagree	0	0
Disagree	2	2.15

Neutral	1	1.08
Agree	23	24.73
Strongly Agree	67	72.04
Total	93	100

Source: Questionnaire, 2021

The above table results indicate a strong consensus among auditors that lack of cooperation from management is a significant challenge in auditing public enterprises. With 96.77% of respondents either agreeing or strongly agreeing, it is evident that this issue is a major concern that requires attention and action. Only very small percentages (3.23%) do not perceive this as a significant challenge, underscoring the critical nature of management cooperation in the auditing process. This finding is in alignment with Amaechi and Francis Egbunike (2017) that lack of attention from management which in turn adversely affects the auditee. When the highest decision makers in the entity cooperate with the auditors it increases the chance to get a quality report, since auditors find it easy to acquire proper documentation, budget etc..

How often do you encounter difficulties in obtaining necessary documentation from public enterprises?

Table 5 Difficulties in Obtaining Necessary Documentation from Public Enterprises

Response Category	Frequency	Percentage (%)
Never	3	3.23
Rarely	5	5.38
Sometimes	30	32.26
Often	40	43.01
Always	15	16.13
Total	93	100

Source: Questionnaire, 2021

The above tabulated results show that difficulties in obtaining necessary documentation from public enterprises are a common issue faced by auditors. A combined 91.4% of respondents (sometimes, often, and always) encounter difficulties to varying degrees, with the majority experiencing these difficulties often or sometimes. This finding is in agreement with the study of UN expert group (2005) that auditors are challenged to fulfill all their responsibilities to evaluate

situations due to the absence of quality information. This suggests that there is a substantial barrier in the audit process related to documentation, which may need to be addressed through improved processes, better communication, or policy changes to facilitate smoother audits.

To what degree does the complexity of regulations governing public enterprises pose a challenge in your audits?

Table 6 Impact of Regulatory Complexity on Audits of Public Enterprises

Response Category	Frequency	Percentage (%)
Not at all	2	2.15
To a small degree	5	5.38
To a moderate degree	25	26.88
To a high degree	40	43.01
To a very high degree	21	22.58
Total	93	100

Source: Questionnaire, 2021

The above table results indicate that the complexity of regulations governing public enterprises is a substantial challenge for auditors. With 92.47% of respondents (small degree, moderate degree, high degree, and very high degree) finding it to pose some level of challenge, and the majority (65.59%) experiencing it to a high or very high degree, it is clear that regulatory complexity is a critical issue. This suggests a need for clearer, more streamlined regulations or better resources and training for auditors to navigate these complexities effectively. That aligns with Ramanna (2019) that regulations are indispensable to auditing, and the structure and conduct of regulation plays a first-order role in the behavior of auditors. Hence, regulation in audit is by its nature risk averse. More clearer regulation and directives gives the auditors to manage their resources and save time, if not auditors will engage in robust assignments.

How frequently do you face issues with the quality of internal controls within public enterprises?

Table 7 Issues with the Quality of Internal Controls in Public Enterprises

Response Category	Frequency	Percentage (%)
Never	5	38

Rarely	10	10.75
Sometimes	30	32.26
Often	25	26.88
Always	23	24.73
Total	93	100

Source: Questionnaire, 2021

Internal control system has a greater impact in achieving organization goal and promoting accountability and transparency. As indicated in Table 7 above, a significant proportion (26.88%) often encounters issues with internal controls, highlighting frequent challenges in maintaining control quality and the largest group (32.26%) sometimes faces issues, suggesting that occasional problems with internal controls are common but not constant for many respondents. The distribution of responses shows that a majority of respondents experience issues with the quality of internal controls at least sometimes, with significant portions facing these issues often or always. This indicates that while some auditors rarely encounter problems, many find the quality of internal controls to be an ongoing and significant challenge. This could suggest a need for improvements in the internal control systems of public enterprises to reduce the frequency and severity of these issues.

Do you find that political influences affect the objectivity of the audit process in public enterprises?

Table 8 Impact of Political Influences on the Objectivity of Audits in Public Enterprises

Response Category	Frequency	Percentage (%)
Yes	65	69.89
No	28	30.11
Total	93	100

Source: Questionnaire, 2021

The above table shows that the data reveals that a majority of respondents (69.89%) perceive political influences as affecting the objectivity of the audit process in public enterprises, indicating a significant concern about political pressure compromising audit integrity.

Conversely, 30.11% of respondents do not see political influences as affecting the audit process, suggesting that for a notable minority, audits are conducted without perceived political interference. These findings highlight the need for measures to safeguard the independence and objectivity of the audit process in public enterprises. The above finding is in alignment with the study made previously by Richard Chambers (cited in Crampton, 2020) emphasize, these professionals deal with career-threatening political risks on a daily basis that many private sector auditors could never comprehend. Also according to Samuel (2008), structural problem in the form of assigned task harms the auditor independency that creates fear of losing promotion or job security.

To what extent do insufficient resources (time, personnel, budget) impact your ability to conduct thorough audits of public enterprises?

Table 9 Impact of Insufficient Resources on the Thoroughness of Audits in Public Enterprises

Response Category	Frequency	Percentage (%)
Not at all	7	7.53
To a small extent	12	12.90
To a moderate extent	28	30.11
To a great extent	25	26.88
To a very great extent	21	22.58
Total	93	100

Source: Questionnaire, 2021

According to Table 9 above, the majority of respondents (79.57%) experience some level of impact due to insufficient resources when conducting audits, with a significant portion (49.46%) indicating that the impact is great or very great. This highlights the critical issue of resource constraints in the audit process, suggesting that many auditors struggle to perform thorough audits due to limitations in time, personnel, and budget. Addressing these resource constraints could be crucial for improving the quality and thoroughness of audits in public enterprises.

How challenging is it to assess the risk management practices within public enterprises?

Table 10 Challenges in Assessing Risk Management Practices in Public Enterprises

Response Category	Frequency	Percentage (%)
Not challenging	10	10.75
Slightly challenging	18	19.35
Moderately challenging	30	32.26
Very challenging	20	21.51
Extremely challenging	15	16.13
Total	93	100

Source: Questionnaire, 2021

Table 10 reveals that the majority of respondents (89.25%) experience some level of challenge in assessing risk management practices within public enterprises. The largest group (32.26%) finds it moderately challenging, indicating that while the assessment is not overwhelmingly difficult, it does require significant effort. A notable portion of respondents (37.64%) finds the process very or extremely challenging, suggesting that for many auditors, assessing risk management practices is a complex and demanding task. This highlights the need for enhanced methodologies, tools, or training to support auditors in effectively evaluating risk management practices in public enterprises. This result is in agreement with Crampton (2020) risk management takes a back seat in public owned companies; and people tend to assume that government budgets are big enough to bail departments out of bad decisions, which can lead to risky behaviors.

How often do you encounter resistance or pushback from public enterprises during the audit process?

Table 11 Resistance or Pushback Encountered During Audit Process in Public Enterprises

Response Category	Frequency	Percentage (%)
Never	8	8.6
Rarely	14	15.05
Sometimes	35	37.63

Often	23	23.66
Always	15	15.05
Total	93	100

Source: Questionnaire, 2021

As indicated in the above table the majority of respondents (91.40%) experience some level of resistance or pushback from public enterprises during the audit process, with the largest group (37.63%) encountering it sometimes. A significant portion of respondents (38.71%) faces resistance often or always, highlighting frequent and persistent challenges in the audit process due to pushback from public enterprises. Resistance during audits is a common challenge in public sector auditing. According to Mihret and Admassu (2011), public enterprises often view audits as regulatory rather than value-adding, leading to pushback. Furthermore, Alemu (2018) highlights that lack of cooperation and delays in providing documents are frequent issues faced by auditors in Ethiopian public enterprises, undermining audit efficiency. This suggests a need for strategies to mitigate resistance and foster cooperation between auditors and public enterprises to ensure a smoother and more effective audit process.

4.5 Audit Process and Techniques

How effective are current audit methodologies in addressing the unique challenges of public enterprises?

Table 12 Effectiveness of Current Audit Methodologies in Addressing Challenges of Public Enterprises

Response Category	Frequency	Percentage (%)
Not effective	6	6.45
Slightly effective	15	16.13
Moderately effective	40	43.01
Very effective	22	23.66
Extremely effective	10	10.75
Total	93	100

Source: Questionnaire, 2021

In reference to Table 12, the majority of respondents (77.42%) find current audit methodologies at least moderately effective in addressing the unique challenges of public enterprises. The largest group (43.01%) finds them moderately effective, suggesting that while the methodologies work to some extent, there is still a need for improvement. A notable portion of respondents (34.41%) finds the methodologies very or extremely effective, indicating a strong confidence in their effectiveness for a significant segment of auditors. However, a combined 22.58% of the respondents find them not or only slightly effective, implying areas where these methodologies could be enhanced to better meet the needs of auditors working with public enterprises. Audit methodologies in public sector audits must address the unique complexities of governance and compliance. As Asare and Wright (2012) note, public sector audits require tailored approaches to address issues like weak internal controls and regulatory compliance. The findings in Table 12 are consistent with research showing that while traditional methodologies are moderately effective, innovation and customization are necessary for better outcomes.

Do you believe that increased use of technology can mitigate some of the challenges faced in auditing public enterprises?

Table 13 Perceptions on Technology's Potential to Mitigate Auditing Challenges in Public Enterprises

Response Category	Frequency	Percentage (%)
Yes	80	86.02
No	13	13.98
Total	93	100

Source: Questionnaire, 2021

The above table indicates a mixed belief among respondents that technology can play a significant role in mitigating challenges in auditing processes and techniques within public enterprises. A large majority (86.02%) sees technology as a beneficial tool that can enhance audit capabilities, potentially improving efficiency and effectiveness. However, a smaller proportion (13.98%) remains unconvinced about technology's ability to address these challenges. Roger Debreceeny, Sook-Leng Lee, Willy Neo, Jocelyn Shuling Toh (2005) emphasize that

technology enhances audit efficiency through data analytics, real-time monitoring, and fraud detection. The high agreement among respondents on the potential of technology (Table 13) aligns with these findings, underscoring the value of digital tools in addressing complex audit environments. This underscores the importance of leveraging technological advancements effectively to meet the evolving needs of auditing in public sector organizations.

How often do you rely on internal audits when conducting external audits of public enterprises?

Table 14 Reliance on Internal Audits in External Auditing of Public Enterprises

Response Category	Frequency	Percentage (%)
Never	5	5.38
Rarely	15	16.13
Sometimes	30	32.26
Often	25	26.88
Always	18	19.35
Total	93	100

Source: Questionnaire, 2021

As indicated in the above table a varied reliance on internal audits exists among respondents when conducting external audits of public enterprises. While a significant portion (32.26%) sometimes relies on internal audits, there are also substantial numbers who often (26.88%) or always (19.35%) rely on them. This indicates that internal audit findings are frequently considered valuable and are integrated into external audit processes to varying extents. The smaller groups that rarely (16.13%) or never (5.38%) rely on internal audits suggest alternative approaches or reliance on external audit methods and resources. Collaboration between internal and external audits improves audit quality and efficiency. According to Gramling, Audrey A , Maletta, Mario J , Schneider, Arnold, Church, Bryan K (2004), external auditors benefit significantly from the insights and assessments provided by internal audits, particularly in public enterprises where operations are extensive and complex. Auditing eliminates or reduces corruption, assures effective use of funds and resources, contributes good governance, creates an

effective internal control system that has a greater impact in achieving organization goal and promoting accountability and transparency.

To what extent does the transparency of financial reporting in public enterprises impact the audit process?

Table 15 Impact of Financial Reporting Transparency on the Audit Process in Public Enterprises

Response Category	Frequency	Percentage (%)
Not at all	3	3.23
To a small extent	10	10.75
To a moderate extent	25	26.88
To a great extent	40	43.01
To a very great extent	15	16.13
Total	93	100

Source: Questionnaire, 2021

Table 15 reveals that the majority of respondents (85.48%) believe that the transparency of financial reporting in public enterprises impacts the audit process to some extent. A substantial portion (59.14%) perceives this impact as great or very great, indicating that financial transparency significantly influences how audits are conducted and evaluated. Transparent financial reporting is crucial for effective auditing. Studies by Alwardat, Yousef, Benamraoui, Abdelfettah, and Rieple, Alison (2015) show that poor transparency in public enterprises leads to increased audit risks and resource consumption. The findings in Table 15 confirm that enhancing financial transparency directly benefits the audit process. This underscores the importance of transparency in public enterprise financial reporting as a crucial factor affecting audit outcomes and processes.

How significant is the role of external audit committees in addressing the challenges you face during audits?

Table 16 Significance of External Audit Committees in Addressing Audit Challenges

Response Category	Frequency	Percentage (%)
Not significant	5	5.38
Slightly significant	10	10.75
Moderately significant	25	26.88
Very significant	35	37.63
Extremely significant	18	19.35
Total	93	100

Source: Questionnaire, 2021

Based on Table 16, the analysis shows that the majority of respondents (83.94%) perceive the role of external audit committees as significant in addressing the challenges faced during audits. A significant portion (57.98%) believes this role to be very or extremely significant, indicating the crucial contribution of external audit committees in overcoming audit challenges. External audit committees play a pivotal role in strengthening governance and audit effectiveness. According to Cohen et al. (2002), active and knowledgeable audit committees help mitigate challenges by ensuring accountability and timely resolution of audit issues. This supports the significant role highlighted in Table 16. This underscores the importance of effective external audit committee oversight in ensuring robust audit processes and outcomes in public enterprises.

4.6 Training and Development

Do you receive sufficient training to handle the specific challenges associated with auditing public enterprises?

Table 17 Perceptions on Adequacy of Training for Auditing Challenges in Public Enterprises

Response Category	Frequency	Percentage (%)
Yes	55	59.14
No	38	40.86
Total	93	100

Source: Questionnaire, 2021

The above table indicates that while a majority of respondents (59.14%) feel adequately trained to handle the challenges associated with auditing public enterprises, a notable proportion (40.86%) does not believe they receive sufficient training. This shows a potential gap in training programs aimed at preparing auditors for the specific complexities and nuances of auditing within public enterprises. Training equips auditors to handle the complexities of public sector audits.

How helpful are continuous professional development programs in equipping you to address audit challenges in public enterprises?

Table 18 Effectiveness of Continuous Professional Development in Addressing Audit Challenges in Public Enterprises

Response Category	Frequency	Percentage (%)
Not helpful	2	2.15
Slightly helpful	8	8.6
Moderately helpful	25	26.88
Very helpful	40	43.01
Extremely helpful	18	19.35
Total	93	100

Source: Questionnaire, 2021

The above table, that is Table 18, reveals that a majority of respondents (89.24%) find continuous professional development programs being helpful in equipping them to address audit challenges in public enterprises. This includes significant percentages who find these programs very helpful (43.01%) or extremely helpful (19.35%), indicating a strong positive impact on their ability to perform audits effectively. Only a small minority (10.76%) perceives these programs as not helpful or slightly helpful, suggesting room for improvement in these programs to better meet the needs of all auditors in addressing public sector audit challenges. Mihret and Woldeyohannes (2008) suggest that continuous professional development, particularly in regulatory updates and technology use, is essential for enhancing audit performance. The high value placed on professional development programs in Table 18 supports this. Addressing this

gap could lead to have better-equipped auditors and potentially more effective audit outcomes in public sector audits.

4.7 General Perception

Overall, how would you rate the difficulty of auditing public enterprises compared to private sector audits?

Table 19 Difficulty of Auditing Public Enterprises Compared to Private Sector Audits

Response Category	Frequency	Percentage (%)
Much less difficult	2	2.15
Less difficult	10	10.75
About the same	30	32.26
More difficult	40	43.01
Much more difficult	11	11.83
Total	93	100

Source: Questionnaire, 2021

The above table indicates varying perceptions among respondents regarding the difficulty of auditing public enterprises compared to private sector audits. While a significant portion (75.27%) believes that auditing public enterprises is either more difficult or much more difficult than private sector audits, a smaller percentage (13.90%) finds it less difficult or much less difficult. Auditing public enterprises involves distinct challenges, including bureaucratic processes, compliance issues, and political interference. According to Tadesse and Mengesha (2017), these factors make public sector audits more complex than private sector audits, aligning with the perceptions in Table 19. This highlights the diverse challenges and complexities associated with audits in the public sector, influencing how auditors perceive the comparative difficulty between the two sectors.

Would you recommend any changes in the regulatory framework to reduce the challenges faced during the auditing of public enterprises?

Table 20 Recommendations for Regulatory Framework Changes to Address Audit Challenges in Public Enterprises

Response Category	Frequency	Percentage (%)
Yes	63	67.74
No	30	32.26
Total	93	100

Source: Questionnaire, 2021

As indicated in the above table a majority of respondents (67.74%) perceive a need for changes in the regulatory framework to mitigate challenges in auditing public enterprises. This reflects a consensus among these auditors that regulatory improvements could enhance the efficiency, effectiveness, or fairness of audits within public sector entities. Conversely, a minority (32.26%) believes that such changes are unnecessary or might not provide substantial benefits in addressing audit challenges. This indicates differing perspectives on the adequacy of current regulatory structures in supporting audit processes in public enterprises.

If yes, which areas of the regulatory framework need improvement? (Select all that apply)

Table 21 Areas of Regulatory Framework Recommended for Improvement to Address Audit Challenges in Public Enterprises

Combination of Improvements	Frequency	Percentage (%)
Financial reporting standards and Compliance requirements	21	33.33
Financial reporting standards and Internal control requirements	16	25.39
Compliance requirements and Auditor independence rules	11	17.47
Internal control requirements and Auditor independence rules	7	11.11
Financial reporting standards and	5	7.94

Auditor independence rules		
Other combinations (not specified listed)	3	4.76

Source: Questionnaire, 2021

The above table reveals diverse perspectives among respondents regarding areas of the regulatory framework that need improvement to address challenges in auditing public enterprises. The most frequently cited combinations include financial reporting standards paired with various regulatory aspects like compliance requirements, internal control requirements, and auditor independence rules. These findings underscore the complexity of regulatory challenges in auditing public sector entities and highlight specific areas where stakeholders perceive a need for targeted regulatory enhancements to improve audit effectiveness, transparency, and governance. Beasley et al. (2000) recommend enhanced financial reporting standards and auditor independence rules to address governance issues. The areas identified in Table 21 reflect similar priorities, highlighting the need for robust regulatory reforms in Ethiopia's public enterprises.

Chapter Five

5. Conclusion and Recommendations

This Chapter is committed to present two parts which are conclusion and recommendation.

5.1 Conclusion

Based on the comprehensive analysis of the survey responses from 93 auditors regarding the challenges, processes, and perceptions related to auditing public enterprises, several key conclusions can be drawn:

Challenges Faced in Auditing Public Enterprises: The survey revealed significant challenges, including resistance from management, difficulties in obtaining documentation, complex regulatory environments, issues with internal controls, and political influences on audit objectivity. These challenges collectively underscore the multifaceted nature of auditing in public sector entities, necessitating targeted strategies for improvement.

Perceptions on Audit Effectiveness and Technology: Respondents generally find current audit methodologies moderately effective, with a strong belief that increased use of technology can mitigate audit challenges. This indicates a readiness to adopt technological solutions to enhance audit capabilities and efficiency in addressing public sector complexities.

Training and Development Needs: While a majority of auditors feel adequately trained, there remains a substantial minority that perceives a lack of sufficient training to handle specific challenges in auditing public enterprises. Continuous professional development programs are highly valued but could benefit from enhancements to better equip auditors for their roles.

Regulatory Framework Improvements: A significant majority of respondents believe that changes in the regulatory framework are necessary to reduce auditing challenges in public enterprises. The most cited areas for improvement include financial reporting standards, compliance requirements, internal control frameworks, and auditor independence rules. These findings highlight a consensus among auditors on the need for clearer, more supportive regulatory structures to enhance audit effectiveness and transparency.

5.2 Recommendations

Based on the conclusions drawn from the survey results, the following recommendations are proposed to address the identified challenges and improve auditing processes in public enterprises:

- Implement measures to improve cooperation from management during audits, such as fostering better communication channels and reinforcing the importance of audit transparency and compliance.
- Develop streamlined processes for obtaining necessary documentation from public enterprises to reduce delays and enhance audit efficiency.
- Work towards simplifying and clarifying regulatory requirements governing public enterprises to reduce the complexity faced by auditors and enhance compliance.
- Support public enterprises in improving their internal control frameworks to ensure higher quality and reliability, thereby reducing audit issues related to control deficiencies.
- Implement measures to safeguard audit objectivity from political influences, potentially through strengthened independence guidelines or oversight mechanisms.
- Further invest in and leverage technology solutions to enhance audit capabilities, improve data analytics, and streamline audit processes in public sector audits.
- Enhance existing training programs to better prepare auditors for the specific challenges and complexities of auditing public enterprises, focusing on practical skills and scenario-based learning.
- Based on feedback regarding areas needing improvement (financial reporting standards, compliance requirements, internal controls, and auditor independence), initiate a review process to update and strengthen the regulatory framework governing audits in public enterprises.
- Establish mechanisms to monitor the effectiveness of implemented improvements regularly and solicit ongoing feedback from auditors to ensure continuous enhancement of audit processes and regulatory frameworks.

By implementing these recommendations, stakeholders can work towards improving the effectiveness, efficiency, and transparency of auditing processes in public enterprises.

Addressing these recommendations can lead to more robust audit outcomes, greater trust in financial reporting, and enhanced governance in the public sector.

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Appendix I

Mekelle University

College of Business and Economics

Department of Accounting and Finance

The Challenges of External Auditors Auditing Public Enterprises: A case study of Auditors of Audit Service Corporation (ASC)

Introduction: Thank you for agreeing to participate in this research study. The purpose of this questionnaire is to gather insights into the challenges faced by auditors when auditing Public Enterprises (PEs), particularly in the context of Audit Service Corporation auditing staff. Your responses will be valuable in understanding the specific challenges encountered and in identifying potential areas for improvement. Please answer the following questions to the best of your ability. Your responses will remain confidential and will only be used for research purposes.

Thank you in advance for your cooperation!

Feven Antonious

Section 1: Demographic Information

1. Gender

- Male
- Female

2. Educational Level

- BA Degree
- Master's Degree
- Ph. D

3. Job Title/Position_____

4. Years of experience in Auditing:_____

Section B: Challenges Faced During Auditing

5. **To what extent do you agree that lack of cooperation from management is a significant challenge in auditing public enterprises?**
- Strongly disagree
 - Disagree
 - Neutral
 - Agree
 - Strongly agree
6. **How often do you encounter difficulties in obtaining necessary documentation from public enterprises?**
- Never
 - Rarely
 - Sometimes
 - Often
 - Always
7. **To what degree does the complexity of regulations governing public enterprises pose a challenge in your audits?**
- Not at all
 - To a small degree
 - To a moderate degree
 - To a high degree
 - To a very high degree
8. **How frequently do you face issues with the quality of internal controls within public enterprises?**
- Never
 - Rarely
 - Sometimes
 - Often
 - Always
9. **Do you find that political influences affect the objectivity of the audit process in public enterprises?**
- Yes
 - No
10. **To what extent do insufficient resources (time, personnel, budget) impact your ability to conduct thorough audits of public enterprises?**

- Not at all
- To a small extent
- To a moderate extent
- To a great extent
- To a very great extent

11. How challenging is it to assess the risk management practices within public enterprises?

- Not challenging
- Slightly challenging
- Moderately challenging
- Very challenging
- Extremely challenging

12. How often do you encounter resistance or pushback from public enterprises during the audit process?

- Never
- Rarely
- Sometimes
- Often
- Always

Section C: Audit Process and Techniques

13. How effective are current audit methodologies in addressing the unique challenges of public enterprises?

- Not effective
- Slightly effective
- Moderately effective
- Very effective
- Extremely effective

14. Do you believe that increased use of technology can mitigate some of the challenges faced in auditing public enterprises?

- Yes
- No

15. How often do you rely on internal audits when conducting external audits of public enterprises?

- Never
- Rarely

- Sometimes
- Often
- Always

16. To what extent does the transparency of financial reporting in public enterprises impact the audit process?

- Not at all
- To a small extent
- To a moderate extent
- To a great extent
- To a very great extent

17. How significant is the role of external audit committees in addressing the challenges you face during audits?

- Not significant
- Slightly significant
- Moderately significant
- Very significant
- Extremely significant

Section D: Training and Development

16. Do you receive sufficient training to handle the specific challenges associated with auditing public enterprises?

- Yes
- No

17. How helpful are continuous professional development programs in equipping you to address audit challenges in public enterprises?

- Not helpful
- Slightly helpful
- Moderately helpful
- Very helpful
- Extremely helpful

Section E: General Perception

18. Overall, how would you rate the difficulty of auditing public enterprises compared to private sector audits?

- Much less difficult

- Less difficult
- About the same
- More difficult
- Much more difficult

19. Would you recommend any changes in the regulatory framework to reduce the challenges faced during the auditing of public enterprises?

- Yes
- No

20. If yes, which areas of the regulatory framework need improvement? (Select all that apply)

- Financial reporting standards
- Compliance requirements\
- Internal control requirements
- Auditor independence rules
- Other (please specify)

መቀሌዩኒቨርሲቲ
የንግድእናኢኮኖሚክስኮሌጅ
የሂሳብእናፋይናንስመምሪያ

የመንግስትልማትድርጅቶችየውጭአዲተሮችአዲተሮችተግዳሮቶች፣የአዲትአገልግሎትኮርፖሬሽንአዲተሮችጉዳይጥናት መግቢያ፣በዚህየምርምርጥናትለመሳተፍስለተስማማችሁእናመሰግናለን።የዚህመጠይቅአላማየመንግስትየልማትድርጅቶችን (PEs)

ሲመረምሩአዲተሮችየሚያጋጥሟቸውንተግዳሮቶችበተለይምየአዲትአገልግሎትኮርፖሬሽንአዲትሰራተኞችንበተመለከተግንዛቤ ዎችንለመሰብሰብነው።ያጋጠሙትንተግዳሮቶችለመረዳትእናመሻሻልየሚችሉባቸውንቦታዎችበመለየትየእርስዎምላሾችጠቃሚ ይሆናሉ።እባክዎንየሚከተሉትንጥያቄዎችበተቻለዎትመጠንይመልሱ።የእርስዎምላሾችሚስጥራዊሆነውይቆያሉእናለምርምርዓላ ማዎችብቻጥቅምላይይውላሉ።

ስለትብብርዎአስቀድመውእናመሰግናለን!

ፌሽንአንቶኒየስ

ክፍል 1: የስነሕዝብአወቃቀርመረጃ

1. ጾታ

ወንድ

ሴት

2. የትምህርትደረጃ

ቢኤዲግሪ

የማስተርስዲግሪ

ፒኤችዲ

3. የስራመደቡ/የስራመደቡ _____

4. በአዲቲንግየዓመታትልምድ: _____

ክፍልለ: በአዲትወቅትያጋጠሙተግዳሮቶች

5. የመንግስት የልማት ድርጅቶችን አዲት ከማድረግ አንፃር የአመራሩ ትብብር ማነስ ትልቅ ፈተና እንደሆነ ምን ያህል ይስማማሉ?

በጣም አልስማማም።

አልስማማም።

ገለልተኛ

ተስማማ

በጣም ተስማማ

6. ከመንግስት የልማት ድርጅቶች አስፈላጊነቶችን ለማግኘት ምን ያህል ጊዜ ጥሮች ያጋጥሙዎታል?

በጭራሽ

አልፎ አልፎ

አንዳንድ

ብዙ ጊዜ

ሁሌም

7. የመንግስት የልማት ድርጅቶችን የሚቆጣጠሩት ደንቦች ውስብስብነት ምን ያህል በአዲት ዎላይ ፈተና ይፈጥራል?

በፍጹም

በትንሽ ዲግሪ

ወደ መካከለኛ ዲግሪ

በከፍተኛ ደረጃ

በጣም ከፍተኛ ደረጃ

8. በመንግስት የልማት ድርጅቶች ውስጥ የውስጥ ቁጥጥር ጥራት ላይ ምን ያህል ጊዜ ጥሮች ያጋጥሙዎታል?

በጭራሽ

አልፎ አልፎ

አንዳንድ

ብዙ ጊዜ

ሁሌም

9. የፖለቲካተጽእኖዎች በመንግስት የልማት ድርጅቶች ውስጥ የአዲት ሂደቱን ተጨባጭነት ላይ ተጽእኖ እንደሚሰጥና ሩተን ዝባብ በዋል?

አዎ

አይ

10. በቂያል ሆነሃብት (ጊዜ፣ ሰራተኛ፣ በጀት)

በመንግስት የልማት ድርጅቶች ላይ የተሟላ አዲት ለማድረግ ምን ያህል ተፅዕኖ ሰጥቷል?

በፍጹም

በመጠኑም ቢሆን

በመጠኑም ቢሆን

በከፍተኛ ደረጃ

በከፍተኛ ደረጃ

11. በመንግስት የልማት ድርጅቶች ውስጥ ያለውን የአደጋ አያያዝ አሰራር ለመገምገም ምን ያህል ፈታኝ ነው?

ፈታኝ አይደለም

ትንሽ ፈታኝ ነው

መጠኖ ፈታኝ

በጣም ፈታኝ ነው

በጣም ፈታኝ

12. በአዲት ሂደቱ ምን ያህል ጊዜ በመንግስት የልማት ድርጅቶች ተቃውሞ ይምጣል ትያጋጥሙዎታል?

በጭራሽ

አልፎ አልፎ

አንዳንዴ

ብዙ ጊዜ

ሁሌም

ክፍል ሐ: የአዲት ሂደት እና ቴክኒኮች

13. የመንግስት የልማት ድርጅቶችን ልዩ ተግዳሮቶች ለመፍታት አሁን ያሉት የአዲት ዘዴዎች ምን ያህል ውጤታማ ናቸው?

ውጤታማ አይደለም።

ትንሽ ውጤታማ

መጠነኛ ውጤታማ

በጣም ውጤታማ

በጣም ውጤታማ

14.

የቴክኖሎጂ አጠቃቀም መጨመር የመንግስት የልማት ድርጅቶችን አዲት ሲያደርጉ አንዳንድ ተግዳሮቶችን ይቀንሳል ብለው ያምናሉ?

አዎ

አይ

15. የመንግስት የልማት ድርጅቶችን የውጭ አዲት ሲያደርጉ በውስጥ አዲት ላይ ምን ያህል ጊዜ ይተማመናሉ?

በጭራሽ

አልፎ አልፎ

አንዳንዴ

ብዙ ጊዜ

ሁሌም

16. የመንግስት የልማት ድርጅቶች የፋይናንስ ሪፖርት አቀራረብ ግልፅነት በአዲት ሂደቱ ላይ ምን ያህል ተፅዕኖ ያሳድራል?

በፍጹም

በመጠኑም ቢሆን

በመጠኑም ቢሆን

በከፍተኛ ደረጃ

በከፍተኛ ደረጃ

17. በአዲት ወቅት የሚያጋጥሙ ህንጻዎችን ለመፍታት የውጭ አዲት ኮሚቴዎች ሚና ምን ያህል ነው?

ጉልህ አይደለም።

ትንሽትርጉምያለው□

መጠነኛትርጉምያለው□

በጣምጠቃሚ□

እጅግበጣምጠቃሚ□

ክፍል D: ስልጠናእናልማት

16. የመንግስትየልማትድርጅቶችንከአዲትጋርየተያያዙልዩልዩተግዳሮቶችንለመቋቋምበቂስልጠናወስደዋል?

አዎ□

አይ□

17.

በመንግስትየልማትድርጅቶችውስጥያሉየአዲትፈተናዎችንለመፍታትተከታታይሙያዊልማትፕሮግራሞችእርስዎንለማስታጠቅ
ምንያህልኢጋዥናቸው?

አይጠቅምም።□

ትንሽኢጋዥ□

በመጠኑኢጋዥ□

በጣምኢጋዥ□

በጣምኢጋዥ□

ክፍል ኢ: አጠቃላይግንዛቤ

18. በአጠቃላይየመንግስትየልማትድርጅቶችንአዲትአስቸጋሪነትከግሉሴክተርአዲትአንፃርእንዴትይገመግሙታል?

በጣምያነሰአስቸጋሪ□

ያነሰአስቸጋሪ□

ስለተመሳሳይ□

የበለጠከላድ□

የበለጠከላድ□

19. በመንግስትየልማትድርጅቶችአዲትወቅትየሚያጋጥሙትንተግዳሮቶችለመቀነስየቁጥጥርማዕቀፍላይለውጦችንይመክራሉ?

አዎ

አይ

20. አዎከሆነ፣ የትኞቹ የቁጥጥር ማዕቀፎች መሻሻል ያስፈልጋቸዋል? (የሚመለከተውን ሁሉ ይምረጡ)

የፋይናንስ ስሪ ፖርት አቀራረብ ደረጃዎች

የተገዢነት መስፈርቶች

የውስጥ ቁጥጥር መስፈርቶች

የኦዲተር የነጻነት ሕጎች

ሌላ (አባከዎ ይግለጹ)