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COLLEGE OF BUSINESS AND ECONOMICS

**EFFECTIVENESS OF INTERNAL AUDIT PRACTICES: THE
CASE OF ETHIOPIAN INSURANCE CORPORATION**

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June, 2025

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INSURANCE CORPORATION**

CERTIFICATION

We attest that Mr. Abiye Zeleke conducted and finished the research thesis titled "Effectiveness Of Internal Audit Practices: the case of Ethiopian insurance corporation " and the research work was supervised by us and submitted to the college of Business and Economics department, Addis Ababa university, Ethiopia.

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DECLARATION

I, Abiye Zeleke, declare that this work is my original paper which is “Effectiveness of internal audit practices: the case of Ethiopian insurance corporation: and has not been presented for a degree in any other university and that all sources of materials used for the thesis paper have been duly acknowledged.

Declared by: Abiye Zeleke

Name

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Date _____ June, 2025 _____

ABSTRACT

This study aims to evaluate the internal audit practices of the Ethiopian Insurance Corporation (EIC) by using the International Professional Practices Framework (IPPF) as a standard. The research adopts a mixed-methods approach, combining surveys, in-depth interviews, and document analysis. For the survey, purposive sampling was applied to select five key districts from the organization's entire population. A total of 37 self-administered questionnaires were distributed to internal auditors and senior managers across these districts: Central, Northern, Western, Southern, and Eastern Addis Ababa. Of these, 32 questionnaires were completed and returned, resulting in an 86.49% response rate. The main findings indicate that EIC prepares comprehensive audit work programs, effectively implements audit plans, and produces internal audit reports that comply with established standards. Additionally, the study found that quality assurance and improvement initiatives, as well as the independence and objectivity of the internal audit activities, align with IPPF guidelines. However, some shortcomings were identified, including insufficient professional care, a lack of certification at the required professional levels, staffing shortages, and inadequate training and development programs. Based on these results, the researcher recommends that senior management give more focused attention to the internal audit department, support ongoing professional development, and establish formal training policies to foster better performance within the EIC.

Keywords: *Internal Audit; Mandatory Guidance Elements; Revised Internal Auditing Standards; Code of Ethics; Institute of Internal Auditors.*

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LIST OF ABBREVIATIONS

AC---Audit Committee

ASQ=American Society for Quality

CAE---Chief Audit Executive

IA---Internal Auditor/s

IAA---Internal Audit Activities

IAF---Internal Audit Function

IAS---International Auditing Standards

IIA---Institute of Internal Auditors

IIASB---International Internal Audit Standards Board

IPPF---International Professional Practices Framework

IPPFOC---International Professional Practice Framework Oversight Council

ISIA---International Standards of Internal Auditing (Standards)

MGE---Mandatory Guidance Elements

QAIP---Quality Assurance and Improvement Program

SPSS---Statistical Packages for Social Scientists

CHAPTER 1: INTRODUCTON

1.1 Background of Study

In today's dynamic and highly regulated business environment, internal audit has become a crucial element of effective corporate governance. Serving as an independent assurance function, internal audit evaluates and enhances the effectiveness of risk management, internal controls, and governance processes within an organization. This role is particularly vital in financial institutions, such as insurance companies, where high-risk exposure and operational complexity necessitate robust internal audit practices to maintain financial integrity, ensure compliance, and promote operational efficiency.

The scope of internal auditing has expanded beyond traditional compliance and financial checks to encompass a more strategic function that provides valuable insights to management, thereby contributing to improved organizational performance. An effective internal audit system ensures that resources are utilized economically and efficiently, and it assists organizations in achieving their objectives through systematic evaluation and enhancement of internal processes.

In Ethiopia, the internal audit function, especially within public enterprises, is increasingly recognized for its potential to strengthen accountability and transparency. However, concerns persist regarding its practical effectiveness, often attributed to limitations in audit independence, capacity, resource allocation, and the implementation of audit findings.

The Ethiopian Insurance Corporation (EIC), established in 1976, is a state-owned enterprise and a dominant player in Ethiopia's insurance sector. As a large public financial institution, EIC operates under a complex regulatory and operational framework, making a robust internal audit system essential to its sustainability and public trust. Despite the presence of a structured internal audit department, challenges remain in terms of the perceived effectiveness and actual impact of internal audit practices within the organization.

This study aims to assess the effectiveness of internal audit practices at EIC, focusing on key dimensions such as audit planning, independence, competence of audit staff, execution of audit activities, and the follow-up of audit recommendations. By examining these aspects, the

study seeks to identify strengths and weaknesses in the current audit practices and suggest measures for enhancing their contribution to organizational performance and accountability.

1.2 Statement of Problem

Internal audit functions are pivotal in ensuring organizational accountability, effective risk management, and compliance with regulatory standards. In financial institutions, particularly insurance companies, robust internal audit practices are essential for safeguarding assets, enhancing operational efficiency, and maintaining the integrity of financial reporting. However, in many developing countries, including Ethiopia, concerns have been raised about the adequacy and effectiveness of internal audit systems in public enterprises.

The Ethiopian Insurance Corporation (EIC), as one of the largest and oldest public insurance providers in the country, is expected to uphold high standards of internal control and corporate governance. Despite having an established internal audit department, questions persist regarding the extent to which these audit practices are truly effective in identifying risks, improving internal controls, and supporting management decisions. Factors such as lack of independence, inadequate resources, limited professional capacity, and weak implementation of audit recommendations may undermine the effectiveness of the internal audit function.

Given the increasing complexity of financial operations and regulatory expectations in the insurance sector, it is crucial to assess how well the internal audit practices at EIC are meeting their intended objectives. This study, therefore, seeks to evaluate the effectiveness of internal audit practices within EIC, identify existing gaps and challenges, and propose actionable recommendations for improvement.

1.3 Objective of study

1.3.1 General Objective:

The effectiveness of internal audit practices the case of Ethiopian Insurance Corporation and assess their contribution to organizational performance, governance, and risk management.

1.3.2 Specific Objectives:

1. To evaluate the alignment of the Ethiopian Insurance Corporation's (EIC) internal audit practices with the IPPF standards, focusing on risk assessment and prioritization, planning, fieldwork, reporting, and follow-up processes.
2. To assess the objectivity and independence of EIC's internal audit function in accordance with the IPPF standards, ensuring unbiased and impartial audit activities.
3. To examine the proficiency and due professional care exercised by EIC's internal audit staff, as stipulated in the IPPF Attribute Standards, ensuring auditors possess the necessary knowledge, skills, and competencies.
4. To evaluate the implementation of a Quality Assurance and Improvement Program (QAIP) within EIC's internal audit function, including both internal and external assessments, in line with IPPF Performance Standards.
5. To analyze the adherence to the IPPF Code of Ethics within EIC's internal audit practices, ensuring the principles of integrity, objectivity, confidentiality, and competency are upheld.

1.4 Research questions

- To what extent do the internal audit practices of EIC comply with international internal auditing standards?
- How aligned are EIC's internal audit functions with the Institute of Internal Auditors (IIA) framework?
- How does the organizational structure of EIC affect the independence and objectivity of its internal auditors?
- What role does the internal audit function play in risk identification and management at EIC?

- What is the perception of management and staff towards the effectiveness of internal audit practices in EIC?
- To what extent does top management support enhance or hinder the internal audit function at EIC?
- How does the effectiveness of EIC's internal audit compare to other public insurance organizations in Ethiopia or similar market

1.5 Scope and Limitation of Study

1.5.1 Scope of the study

This study focuses on evaluating the effectiveness of internal audit practices within the Ethiopian Insurance Corporation (EIC). The assessment covers key aspects such as the adequacy of audit planning, the independence and objectivity of internal auditors, the application of audit standards, the effectiveness of audit reporting, and the implementation of audit recommendations. The study primarily involves internal auditors, audit committee members, and relevant management staff within the EIC.

The geographical scope is limited to the head office and selected branch offices of the Ethiopian Insurance Corporation located in Addis Ababa, due to accessibility and time constraints. The timeframe of the audit practices being assessed spans from the fiscal years 2021 to 2023.

1.5.2 Limitation of the study

Despite the importance of the topic, this study is subject to several limitations:

- **Limited Generalizability:** As the study focuses solely on the Ethiopian Insurance Corporation, the findings may not be directly applicable to other insurance companies or public enterprises in Ethiopia.
- **Data Access Constraints:** Access to certain internal documents and audit reports was restricted due to confidentiality, which may have limited the depth of analysis.
- **Time and Resource Constraints:** Due to time limitations and limited resources, the study could not cover all regional branches of EIC or conduct a longitudinal analysis.
- **Response Bias:** The accuracy of the study may be influenced by the subjectivity of respondents during interviews or surveys, potentially leading to biased responses.

Despite these limitations, the study provides valuable insights into the current state of internal

audit practices at EIC and offers recommendations for enhancement.

1.6 Significance of Study

This study holds both practical and academic significance, particularly in the context of enhancing corporate governance and accountability within public enterprises in Ethiopia.

For the Ethiopian Insurance Corporation (EIC):

The finding of this study was providing valuable insights into the strengths and weaknesses of EIC's internal audit practices. By identifying gaps in planning, execution, and follow-up of audit activities, the organization can take informed steps to strengthen its internal control systems, improve risk management, and enhance overall operational efficiency.

For Internal Auditors and Audit Committees:

The study was offered a useful assessment of how internal audit functions are currently performed and perceived within the corporation. This can serve as a basis for professional development, the adoption of best practices, and the promotion of auditor independence and objectivity.

For Policymakers and Regulators:

The research contributes to the understanding of how internal audit systems operate within Ethiopian Insurance Corporation Ethiopia. It may inform policymakers and regulatory bodies in designing or updating policies and guidelines to improve governance and accountability across public institutions.

For Academic and Research Purposes:

This study adds to the limited body of local empirical literature on internal audit effectiveness in the Ethiopian context. It serves as a reference for future researchers interested in auditing, corporate governance, or public enterprise reform, and encourages further studies in similar organizations.

For the General Public and Stakeholders:

A more effective internal audit function can lead to better resource utilization, reduced fraud and mismanagement, and improved public trust in state-owned enterprises like EIC.

CHAPTER 2: LITERATURE REVIEW

2.1 Theoretical Review

Historically, internal auditing was apparent as being confined to merely ensuring that the accounting and underlying records of an organization “transactions appropriately maintained that the assets management system was in place to safeguard the assets, and also seeing that policies and procedures will in place and properly follow. With changing times, the concept of internal auditing has undergone significant changes concerning its justification, scope of coverage, and approach. In some organizations, the span of modern internal auditing has been broadened from financial aspects, including assessing the value for money, the effectiveness, and risk management governance.

2.1.1. Definition of Internal Auditing

“In 1978, the Institute of Internal Auditors (IIA) defined internal auditing as: An independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and evaluating the adequacy and effectiveness of other controls. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities, to this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed” (Ali et al., 2007).

American Society for Quality (ASQ) describes internal auditing as a first-party audit performed within an organization to measure its strengths and weaknesses against its procedures or methods and external standards adopted by (voluntary) or imposed on (mandatory) the organization (Duffy, 2013). A first-party audit is an internal audit conducted by auditors who A first-party audit is an internal audit conducted by auditors who are employed by the organization that being audit but who have no vested interest in the audit results (Russell, 2012).

The modern scope and focus of internal auditing are replicate of the current definition that was formally adopted by the IIA in 1999: An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The notable difference between the definitions of 1978 and 1999 (as repeated in IIA 2008) is that, the prominence of objectivity in internal audit activities and also the emphasis on the evaluation and improvement in risk management and governance processes. The current definition also contemplates two major internal audit services: assurance and consulting services.

Assurance services, according to (Sadler et al., 2008) Internal auditing is conducted by persons within or outside the organization and in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure. Even though the above differences may affect the practice of internal auditing in each environment, conformance with The IIA International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity (Sadler et al., 2008).

2.1.2. Types of Audits Performed by Internal Auditors

A variety of audits performed in reviewing campus programs and resources. These audits include:

A. Operational Audits: For Adriana (2007), an operational audit invariably referred to as a value-for-money audit or performance audit. It helps to determine whether the objectives of the programs or activities were carried out in an economical, efficient, and effective manner. According to 04:06 AM, such types of audits assess the efficiency and effectiveness of any part of an organization's operating procedures and methods. At the entirety of an operational audit, management normally expects hints for enhancing operations. For Example, auditors would possibly examine the performance and accuracy of processing payroll transactions in a newly mounted laptop system.

On the other hand, (Mahmud & Mahmud, 2014) Performance Audit is the evaluation of the economy, efficiency, and effectiveness with which a central authority employer makes use of its sources to perform its obligations and the results of its operations in the atmosphere. At the crowning glory of an operational audit, control commonly expects hints for enhancing operations. i.e. Economy and efficiency (Management) audit – The appraisal of control overall performance from the maximum green factor of view. Tewodros (2014) further noted that the subject matter of operational audit is defined by the audit objectives and audit questions. It may be specific programs, entities or funds or certain activities, existing situations as well as non-financial or financial information about any of these elements.

Nowadays, operational audit is an independent profession, which is playing a significant role in the management of organizations and states policy.

B. Financial Audits: (Arens et al., 2012) explained that as businesses increase in complexity, it is no longer sufficient for auditors to focus only on accounting transactions. An integrated approach to auditing considers both the risk of misstatements and operating control intended to prevent misstatements. Synonymously, (Arens et al., 2012) said monetary audit as its miles carried out to decide whether or not the monetary statements (the facts being verified) are stated in accordance with specified standards. The auditors must also have a thorough understanding of the entity and its environment. This knowledge consists of information of the client's enterprise and its regulatory and working environment, such as outside relationships which suppliers, customers, and creditors. The author additionally considers the client's enterprise techniques and tactics & essential fulfillment elements associated with the one's techniques.

C. Compliance Audit: According to (Arens et al., 2012) compliance audit carried out to decide whether the audit is following precise processes, rules, or guidelines set through a few better authorities. Effects of compliance audits are usually mentioned to control, in preference to doors users, due to the fact control is the number one organization worried with the volume of compliance with prescribed processes and guidelines.

The consequences and the suggestions of the audit performed are supplied inside the audit report, that's communicated to stakeholders, others accountable for governance and the overall public, and have to mirror the contribution of the IAS to suitable governance.

D. Information Systems Audits: Information system audit is a part of the overall audit process, which is one of the facilitators for good corporate governance; Information structures are the lifeblood of any massive business. Auditing information requires separate technical skills that permit an auditor to identify machine weaknesses and issues. An information systems auditor combines the analytical skills of an auditor with the technology expertise of information technology.

According to (Idawati, 2014) information system audits review the internal control environment of automated information processing systems and how people use these systems. The audit typically assesses the controls used to backup and restore system input and output.

Internal Control Reviews: According to the Committee of Sponsoring Organizations of the Tread Way Commission (COSO), internal control is a process affected via way of means of

an entity's board of directors, management, and different personnel, designed to offer affordable guarantee concerning the fulfillment of targets regarding operations & reporting. An inner management evaluation highlights vulnerabilities in a company's inner management surroundings and identifies procedures that may be strengthened.

According to RSM (2021), an internal control review is a typical evaluation of inner manipulates device and its adequacy of enterprise vicinity in an employer to deal with the applicable risks. Through manipulate review, an employer's assets are directed, monitored, and measured in a powerful manner. An inner management evaluation highlights vulnerabilities in company's inner management surroundings and identifies procedures that may be strengthened.

(Arens et al., 2012) stated these audits focus on components of major business activities, such as payroll and benefits cash management involves and equipment grants and contracts for physical and financial protection.

2.1.3. The Performance of the Audit Work

Internal audit activities should be performed with a systematic and disciplined approach as presented in the definition of internal auditing. (IIA, 2017) A systematic process of auditing consists of several steps, namely audit planning, examining and evaluating information from fieldwork, reporting findings, and following up the audit Recommendation. (IIA, 2017) These stages are general guidelines provided by the Standards for the internal auditors to carry out the auditing activities. Similarly, (Sawyer et al., 2003) stated that internal auditors should follow the Standards by performing several actions. First of all, the head of internal audit has to monitor the entire audit process from planning to completion. Second, all audit work should be documented in the audit work papers, including evidence of follow-up procedures and the disposition of deficiencies. Thirdly, the conclusions drawn within the audit reports should be backed by comprehensive supporting documents and also competent, sufficient, and relevant evidence. Finally, there should be an archival system for the working papers. It is vital to plan, control, and record the work of internal audits, and internal auditors may use these processes to determine audit priorities, set objectives, and audit resources. (Van Mourik & Walton, 2014)

2.1.4. Institute of Internal Auditors (IIA)

The IIA is an international professional association based in Altamonte Springs, Florida, USA. It was originated in 1941. The IIA is the head of the internal audit function recognized

by the global voice. Audit professionals add to organizations offering comprehensive Professional education and development opportunities standards and other professional practices advice and certification program research. In general, members work in the management of internal audit risk, internal control, and audit of information technology, education, and security.

The mission of the Institution of Internal Auditors is to offer dynamic management for the international career of internal auditing activities in support of this mission will included, however will now no longer be restricted to: Advocating and promoting the value in internal audit professionals and to the organizations, Providing complete expert academic and improvement opportunities, and certification program, Researching, disseminating, and selling know how regarding inner auditing and its suitable position in control, danger management, and governance to practitioners and stakeholders.

Globally, the IIA has more than 200,000 members. Members enjoy benefits including local, national, and global professional networking, world-class training; certification; guidance; research; executive development; career opportunities; and more (IIA, 2017). The Institute of Internal Auditors (IIA) consolidates a large volume of standards and guidance for auditing in its International Professional Practices Framework (IPPF).

2.1.5. International Professional Practices` Framework (IPPF)

The Global Institute of Internal Auditors has advanced a complete variety of standards, steering, and courses to assist inner auditors around the area of their work. The International Professional Practices Framework (IPPF) has been advanced to organize the whole variety of inner audit steering from IIA Global in a handy way.

2.1.7. Recommended Guidance

Recommended guidance is endorsed via way of means of the IIA over a proper approval process. It describes practices for powerful implementation of the IIA's core principles, the definition of internal auditing, code of ethics, and standards. The advocated factors of the IPPF are: Implementation guidance with help inner auditors in making use of the standards and supplemental guidance provides detailed processes and procedures for internal audit practitioners.

(Cohen & Sayag, 2010) assert that for the pointers made with the aid of using internal auditing standards internal auditors should carry out their audit in accordance with internal auditing standards for quality audit work. Additionally, IIA members suggested compliance with these instructions. The practices for the effective implementation of IIA's main principles are described. The IIAs Code of

ethics and international standards for the professional practice of international Internal Auditing.

2.1.7.1 Mandatory Guidance

According to (Wadesango et al., 2020), mandatory guidance requires auditors to carry out their role objectively and in compliance with accepted criteria for improvement of risk management, control and governance using a systematic and disciplined approach. This is significant not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management.

IIA members are required to conform to obligatory guidance. This guidance developed after consultation with members. These are Core Principles, Definition of Internal Auditing, Code of Ethics, and International Standards of internal auditing (IIA, 2017).

2.1.8 Core Principles

The Core Principles, taken as whole articulate inner audit effectiveness. For an IAF to be considered operative, all Principles must be present and operating effectively. How an internal auditor, as well as an IAF, demonstrates achievement of the Core Principles may be quite different from organization-to-organization but, failure to achieve any of the Principles implies that an IAA is not as effective as it could be in achieving IA's undertaking.

Demonstrates integrity: in easy terms integrity approach doing the proper component and offering honest, goal warranty and advice, even when doing so is uncomfortable or tough and warding off an issue (Calvin, 2021).

Demonstrates competence and due professional care: According to Rick et al. (2005) audit should be performed and report with due professional care by persons who have adequate training, experience, and competence in auditing. Due professional care implies the auditor's professional responsibility to fulfill the duties diligently & carefully. Norman (2019) specified there are struggles with demonstrates competence and due professional care whether it is the capacity to hire audit expertise or to staff audits. He clarifies the key indicator should be based on the cap potential of the IA crew to carry out an audit of all tremendous reasserts of hazard, and whether proprietors of these regions of hazard consider the inner has the competence to carryout associated audits, apprehend the issues, examine the adequacy of hazard control and inner control, offer beneficial and treasured optimistic advice, and communicate effectively.

Is objective and free from undue influence (independent): As the practice guide states, this is closely associated with the first principle. But this one is more about the chief audit executive (CAE) being able to endure any unfortunate pressure from management, whether in threat assessment, selecting which audits to perform, the staffing of those audits, or how the results are revealed.

According to (Baharud-din et al., 2014), independence and objectivity are some of the characteristics that an auditor should have where the auditor can carry out an audit without bias creeping his/her mind. This is a crucial element in conducting an audit because the auditors can pass their judgment without any bias contributing to the judgment as audit evidence but rather the audit can come up with recommendations from the evidence, they themselves obtain in carrying out the audit with independence and objectivity.

Aligns with the strategies, objectives, and risks of the organization; according to (Sawyer et al., 2003), the strategies, objectives & risks of the organization have to be aligned for the internal audit function to be effective. (Cioban et al., 2015) define that inner auditors should have a clean knowledge approximately the control and inner controls of the organization, a good way to be smooth for them to become aware of and verify dangers related to the operations of the organization. Since risks have a negative effect on the achievement of the entity the internal audit department has to closely monitor these risks.

According to (Wadesango & Mhaka, 2017), one of the important roles of internal auditors is the improvement of risk management activities by helping the management with the identification, assessment, and mitigation of the organizations risks.

Is appropriately positioned and adequately resourced: the key is in this discussion, ideally the CAE functionally inform immediately to the board (i.e., the highest level of governance in the organization), which preserves independence by providing the CAE with unrestricted access to address sensitive matters, especially those involving management, that is normally the CEO or as a minimum to a degree that permits the inner audit interest to perform its responsibilities (Norman, 2019). Administratively, the CAE has to document to the very best degree of management, that is normally the CEO or as a minimum to a degree that permits the inner audit interest to perform its responsibilities.

Brown (2017) stated that a control assist is wanted and that with an assist, enough assets are normally allotted for the audit feature and this can make that its audit hints could be implemented.

Demonstrates quality and continuous improvement; According to Fenton & Neil (2014),

the internal auditors are responsible for monitoring the internal control system of the organization and establishing adequate internal control improvement where there is a shortfall in the internal control system of the organization. Internal auditors have the role of reviewing the compliance with the rules and regulations both internal and external. Brown (2014) asserts that the recommendations made by the internal auditors are valuable on the management and improvement of the internal control system and the compliance of rules and regulations by the members of the organization. According to (Hanim Fadzil et al., 2005) quality Performance review assure whether the organizations objective and goals have been achieved.

Communicates effectively: according to (Sawyer et al., 2003) in every situation, internal auditors must recognize and know how to effectively communicate at each different level of communication. Effective auditors must have substantial levels of communication with management. When high levels of communication are developed with management, auditors can acquire knowledge that will significantly support audit evaluations. (Hanim Fadzil et al., 2005) found that the audit work performance and scope greatly affect the communication and information perspectives of the internal control system.

According to (Pickett, 2010) communication must be accurate, objective (fair, impartial & unbiased), clear, concise, constructive, helpful to the engagement by lead to improvements, complete, lacking nothing that is essential to the target audit clients, and timely, the audit results should report on time to benefit the decision-makers.

Provides risk-based assurance; according to IIA, risk assessment, and maintenance on the risks of today and tomorrow are vital for the success of enterprises. According to (Rezaee, 1995), risk assessment requires identification and investigation of both internal and external risks and acceptance of prudent business risk in achieving an entity's objectives, risk assessment assists management and internal auditors to be in control.

According to Jackson & Stent (2010), control risks is a component of the audit risk that relates to a misstatement that could occur in an assertion and that could be material, individually or when aggregated with other misstatements, will not be detected and corrected on a timely basis by the entity's internal control system. Ashouri et al. (2015) assert that the design and implementation of an effective internal control system is the responsibility of management. The authors further explained internal control systems such as that of the internal control system to the attention of management. If management does not get quick

action on the recommendations, then the control risk will remain very high. This means that failure by management to implement audit recommendations that have been designed to strengthen the control environment and reduce risk will result in an increase of control risk.

Is insightful, proactive, and future-focused: (Sawyer & Vinten, 1996) stated internal auditors need to be out in front, leading the business units with regards to the internal control system and also focusing on strategic business objectives. The internal auditors also need to establish themselves as vital cogs in their organizations rather than observers who watch from the periphery and wait for events to impact them. Auditors should be insightful, proactive, and future-focused for the effective implication of the internal audit function. The internal audit activity must appraise and contribute to the development of the organization's governance, threat management, and manipulation procedures through the use of a systematic, disciplined, and threat-primarily based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider the future impact (IIA 2017).

Promotes organizational improvement; According to IIA, Internal audit strengthens company governance through risk-based totally audit that offer warranty and insight at the techniques and systems that force the business enterprise closer to success. As risks grow and become more complex, internal audits' role is likely to expand in areas such as risk governance, culture and behavior, sustainability, and other non-financial reporting measures. Rehman et al. (2016) also declared that to achieve desired goals auditors and management should work together and continuously follow up on the status of the audit recommendations given. Management and the workforce should also know the importance of the IAF and its value to the business environment and realize that auditors are not employed to look for mistakes but are there to help management to execute their duties more effectively.

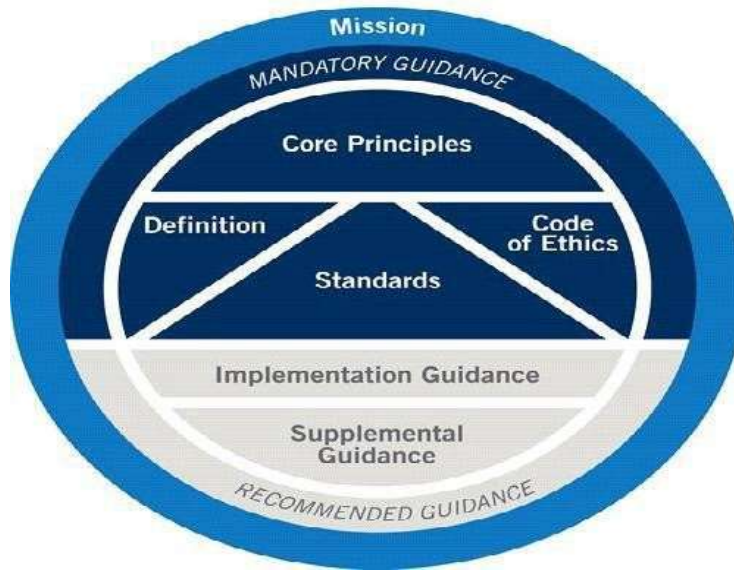


Figure 2.1 International Professional Practices Framework

Source: Institute of Internal Auditors, 2017

2.1.9 International Standards for the Professional Practice of Internal Auditing

Standards for audit and audit-related services are published by the IIA and included attribute, performance, and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objective and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management not only for compliance with legal requirements, for the reason the scope of auditor’s duties could involve the evaluation of areas in which a high level of action adopted by management (Wadesango et al., 2020). It can thus be argued that greater quality of IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit’s planning and execution will improve the audit’s effectiveness.

Internal auditing is performed in different legal and cultural environments that vary in purpose, size, and complexity and according to individuals inside or outside the organization. While differences may affect the practice of internal auditing in each set in accordance with international IIA standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the IAA (IIA, 2017).

The Standards, together with the Code of Ethics, encompass all mandatory elements of the IPPF; therefore, conformance with the Code of Ethics and the Standards demonstrates

conformance with all mandatory elements of the IPPF.

2.1.10 Revised Standards, Effective January 1, 2017

The International Internal Audit Standards Board (IIASB) released the revision to the Standards following consideration and approval by the International Professional Practice Framework Oversight Council (IPPFOC).

The Standards comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services. The Standards apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the Standards.

2.1.10.1 Attribute Standards

Attribute Standards address the characteristics of organizations and parties performing internal audit activities.

Independence and Objectivity

The International Standard for the Professional Practices of Internal Auditing (ISPPA, 2006) defines independence in phrases of freedom from situations that threaten objectivity and the advent of objectivity.

Independence allows inner auditors to render unbiased and independent judgments vital to the right behavior of audits. It is finished through organizational reputation and objectivity. The organizational reputation of the internal auditing branch must be enough to permit the accomplishment of its audit responsibilities (Barac & Mdzikwa, 2016).

According to (Munyete, 2009) Internal auditors are unbiased once they render unbiased and impartial judgment with inside the behavior in their engagement. To make certain this independence, satisfactory practices advise the Chief Audit Executive have to record immediately to the audit committee or its equivalent.

According to IIAs, Objectivity is an intellectual mind-set that inner auditors need to keep whilst appearing in engagements. The inner auditor needs to have an impartial, independent

mind-set and keep away from conflict-of-hobby situations, as that could prejudice his/her capacity to carry out the obligations objectively. Threats to objectivity have to be controlled on the character auditor, engagement, functional, and organizational levels. Although audit requirements and steering attention specifically to the battle of the hobby as a major threat to auditors' objectivity, a biased mindset is a lot greater shared.

To preserve objectivity, inner auditors have to don't have any non-public or expert involvement with or allegiance to the vicinity being audited; and have to preserve an unbiased and independent attitude in regard to all engagements. Independence and objectivity are vital additives of effective inner audit activity (Stewart & Subramaniam, 2010).

Proficiency and Due Professional Care

Internal auditors need to own the knowledge, skills, and different abilities had to carry out their character responsibilities. The CAE Chief Audit government is a senior role inside the organization chargeable for inner audit activities (IIA, 2017).

Technical competence and non-stop schooling are taken into consideration critical for effective IAF. Consistent with this thinking, (Gramling et al., 2004) discover that certification of internal auditors is perceived as a hallmark of competence. Also, (Al-Twajry et al., 2003) argue that inner auditors couldn't have strength until they own the essential competencies. Given the extensive scope of present-day IA, an IA branch ought to rent inner auditors with several abilities to adopt audits past monetary activity (Flesher & Zanzig, 2000). Furthermore, (Butt, 1988) and (Libby & Frederick, 1990) recommend the significance of auditor enjoy in improving auditor's knowledge. Similarly, 04:06 AM deliberate years of experience as an indicator of auditor's knowledge and proficiency.

Although these scholars focused on external audits, the concept of expertise applies equally to internal auditors. This is because internal and external audits share a common body of knowledge and largely similar competencies (Krishnamoorthy, 2001).

In parallel Vein et al. (1999, p. 14-15) list the subsequent essential personal attributes to be a successful internal auditor (in addition to technical and professional qualifications, this is a formidable list): (1) fundamental equity and integrity; (2) determination to the organization's interests; (3) reasonable humility; (4) professional poise; (5) empathy; (6) role consistency; (7) curiosity; (8) critical attitude; (9) alertness; (10) persistence; (11) energy; (12) self-confidence; (13) courage; and (14) ability to make sound judgments.

According to (Albrecht et al., 1999) the greater the professional Qualification of the internal

auditors in a given department, defined by the length of their professional training, experience and educational level, the greater the effectiveness of this department.

Quality Assurance and Improvement Program

Quality assurance standards guarantee that important aspects in the performance of internal audits have been carried out in accordance with the laid down standard. Internal auditors who consistently carry out the quality assurance assessments are guaranteed high-quality audit work if they follow up on the result of such assessments with an aim of improving the quality of their work.

According to the Institution of Internal Auditors (2017), compliance refers to conformity and adherence to policies, plans, procedures, laws, regulations, or other requirements. It is the responsibility of the Chief Audit Executive to ensure that the internal auditing standards are complied with by the audit departments they head.

(Gramling et al., 2004) Spotlight that a first-class counting among the inner audit feature and the audit committee additionally works in the direction of offering the IAF with the perfect surrounding and assist device for wearing out its own governance relate activity (e.g. threat assessment, manage assurance, and compliance work).

Requirements of the Quality Assurance and Improvement Program the best warranty and development applications have to consist of each inner and outside exam (IIA, 2017).

Compliance with quality assurance standards means carrying out both internal and external quality assessments (Okibo & Kamau, 2012). The nice warranty and development application need to encompass each inner and outside check. Ongoing tracking is incorporated into the ordinary rules and practices used to manipulate the inner audit hobby and makes use of processes, tools, and statistics considered necessary to assess conformance with the code of ethics and the standards. External exams have to be performed at the least as soon as every 5 years via way of means of a qualified, unbiased assessor or evaluation group from out of the doors of the organization (IIA, 2017).

2.1.10.2 Performance Standards

Performance Standards describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

Planning

The leader audit government has to setup a risk-primarily based totally plan to decide the priorities of the inner audit activity, regular with the organization's goals (IIA).

Audit planning is an essential element of audit work for both inner and external audits. A desirable audit planning will assist the auditor to reduce its risks, enhance audit efficiency, and meet its goal with minimal effort. Auditors are required to put together the right audit plan to make certain that each one audit danger is diagnosed and accurate audit techniques are deployed to come across all danger areas. It is important for the auditors to put together a terrific strategic audit plan (Justin 2013).

According to (Mihret & Yismaw, 2007), planning is vital for any activity and base for auditors to evaluate the plan and implement whether it accomplish according to the plan or not. It's essential audit activity and includes preparing a strategic plan, and audit programs for individual audit duties.

Reporting

Hypothetically, the Chief Audit Executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization and the functional reporting line for the internal audit function is the ultimate source of independence and authority (Rupsys, 2005).

Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, & receive communication from the CAE. The CAE determines are necessary, private meeting with the CAE without management present; approve all decisions regarding the appointment. On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operation of the internal audit function it typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication, and information flow, administration of the organization's internal policies and procedures (Gleim, 2002).

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as to the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals. Internal auditors must base conclusions and

engagement results on appropriate analyses and evaluations.

Communicating Result

In every situation, internal auditors must recognize and know how to effectively communicate at each different level of communication (Sawyer et al., 2003). Effective auditors must have substantial levels of communication with management. When high levels of communication are developed with management, auditors can acquire knowledge that will significantly support audit evaluations. (Hanim Fadzil et al., 2005) found that the audit work performance and scope greatly affect the communication and information perspectives of the internal control system.

Monitoring Progress

The chief audit administrative must launch and maintain a system to monitor the temperament of results communicated to management. According to (Hanim Fadzil et al., 2005) performance evaluation of the systems recognized compliance with policies, plans, procedures, laws, regulations, and contracts represents the third element of audit activity described by the standard. Launching the system designed to ensure compliance with such laws, rules, regulations, policies, and a procedure is the responsibility of the administrative manager. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It isn't always the obligation of the CEA got to clear up the risk. According to (Rezaee, 1995), risk assessment involves the identification and investigation of both internal and external risks and acceptance of prudent business risk in achieving an entity's objectives, risk assessment assists management and internal auditors to be the governor.

The Code of Ethics (Ethical consideration of Internal Auditing)

According to (Burnaby & Hass, 2009) to Compliance with the IIA's Code of Ethics and

Standards is compulsory for those who provide internal auditing services. As the IIA's Code of Ethics must be followed by all those that provide internal auditing services, guidance on how to apply the Standards is provided in the IIA's practice Advisories which are endorsed and strongly recommended by the IIA.

The IIA's code of ethics endorses an ethical culture in the profession of internal auditing. The code is unchanged in the new IPPF. It has two vital components: 1) Principles that can apply to the career and exercise of inner auditing; and 2) Rules of Conduct that describe conduct norms predicted of inner auditors.

The IIA's code of ethics expects internal auditors to apply and uphold the following principles

Table 2.1 Principles of the Code of Ethics

Code of Ethics	Principle
Integrity	The integrity of internal auditors establishes trust and thus provides The basis for reliance on their judgment.
Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly Influenced by their own interests or by others in forming judgments.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority Unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in The Performance of internal auditing services.

Source: The Institute of Internal Auditors guideline

2.2 Empirical Evidences Review

Different researches were conducted on the existing practices of internal auditing in Ethiopian & other countries' contexts. The focus of those papers varies in terms of sectors, industries, and institutions. Highlights of some previous research papers on similar subject areas including the aim of the research, the methodology they use, main finding & recommendation more over their strength & weakness are discussed as part of the assessment of previous empirical shreds of evidence and presented as follow:

(Ali et al., 2007) examined the role of internal audit in promoting good governance in the State and Local Governments of Malaysia. The study employed an in-depth interview via face-to-face and telephone modes. The findings showed that the internal audit function in the Malaysian State and Local Governmental Bodies had a less satisfactory contribution to the effectiveness of good governance due to lack of audit personnel and lack of requisite skills and competency by the audit personnel. The research recommended that the state & local government need to provide training programs & adequate personnel. The study justifies everything adequately & uses an appropriate research design, & when we come to its limitation, it doesn't offer sufficient recommendations for the finding.

The study uses exploratory research & data collected via a questioner. The finding of the study showed that the internal audit function plays a significant role in promoting good corporate governance in state-owned enterprises, and the key challenges faced in IAF were an insufficient number of audit staff, management reluctance to implement suggested recommendations & inadequate technical resources & skilled personnel in the audit system. The study recommended that the board & management should offer the necessary support, appreciate the increasing status & role of internal audit in promoting good corporate governance practices.

The strength of the study is it provides rich theoretical studies & when we come to the weakness it doesn't include many empirical studies.

(Arena & Azzone, 2009) conducted a survey study in 153 Italian companies to understand the organizational drivers of internal audit effectiveness. The data collected through a questionnaire. The finding exposed, internal audit effectiveness is influenced by; the characteristics of the IA team, the audit processes and activities, and the organizational links. The paper suggested that IA professional bodies should re-design the set of skills and competencies needed for their profession, consistent with the evolution that is currently

taking place in the role of IA within organizations. The strength of this article is that the finding of the study has both practical and theoretical implications & the authors included adequate discussion, analysis & conclusions. The limitation of the study is that the literature review area doesn't discuss vital aspects & issues in its topic area.

Fourie and Erasmus (2010) provided insights in respect to the internal audit activities conducted by the Internal Audit Functions (IAF) of 30 large listed companies in South Africa. The data were collected using questionnaires. The results prove that chief audit executives perceive themselves as performing their internal audit activities according to the internal audit Standards and that they satisfy the needs and expectations of their companies. The limitation of the study is that the research method that they use is not adequately justified. When we come to the strength of it provides enough background information for the audience to understand.

(ABATE, 2017) examined internal auditing and risk assessment in selected public enterprises in Ethiopia. Data were collected using questionnaires and document review. The finding showed that many Ethiopian public enterprises had introduced a proper risk assessment process in their internal audit function, and few enterprises were on the way to introduce the formal risk assessment process. Therefore, the research recommended that internal audit functions that did not incorporate control risk self-assessment will be better off by including it as part of the scope of operation of their respective IAAs for operational risk assessment. The strength of this study is that it discusses all main aspects & issues in its domain (topic area). The limitation of the study is that the qualitative aspect of the study didn't justify clearly.

(Mohamud, 2013) carried an article to determine the role of internal audit and to identify the internal control system in selected remittance companies in Somalia. It administers the questionnaire as a research instrument. The findings of the article showed a positive correlation between internal auditing and internal control system. The study suggested that the company needs to sustain the control system to survive and to be successful. Adequate justification & uses appropriate research design is its major strength & one of the limitations of the study is it has a narrow scope.

Hamdu et al. (2014) investigated how major internal audit standards apply in the internal audit departments of selected public enterprises in the East Arsi Zone of Ethiopia. It administers the questionnaire as a research instrument. The result of the study showed that

the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices. As a result, it recommended that the Chief Audit Executive (CAE) should be able to develop quality assurance programs. The major weakness of the article is that it doesn't include much literature related to the topic & its strength is that it provided adequate analysis & conclusion.

(Radasi & Barac, 2015) conducted a study that aimed to obtain an understanding of the role of Internal Audit Functions (IAFs) in SOEs. The research methodology followed was a qualitative one & utilizing a case study method. The findings of the study revealed that IAFs in SOEs face specific challenges: there is a lack of performance auditing in SOEs; methodologies and auditing systems used by outsourced functions differ from those used in and preferred by the SOEs; the issue of repeat findings still recurs; the IAFs lack essential business knowledge and insight; combined assurance is in its infancy, and there is a high degree of non-compliance with quality assurance and improvement platform Standards. The strength of the study is it determines the perceptions, expectations, and challenges experienced by IAF in SOEs & when we come to the weakness of the study it didn't make a clear recommendation for the finding.

(Sakour & Laila, 2015) investigated the association between internal audit effectiveness and the four factors linked with the International Standards for Professional Practice of Internal Auditing. Based on the review literature, the study concluded that the pay satisfaction of internal auditors" was one of the most significant variables for the internal audit effectiveness. Finally, the study recommended further empirical researches to investigate the association between internal audit effectiveness and the four variables (independence, work performance, competence, and scope of work). When we come to the strength of the study, it provides enough background information & explained the variable very well & has a limitation in describing the research approach applied in the study.

(Utami, 2016) conducted a study to investigate the internal audit practice of Indonesian Public State-Owned Enterprise (SOE). The study uses a case study method. The finding revealed that the audit unit examined has responded to coercive, normative, and mimetic pressures through changes to requirements stated in the internal audit charter found to have a profound impact on the internal audit practice in the public SOE examined. The study recommends improving the independence and objectivity of internal auditors & to recruit new internal auditors as the existing number of internal auditors wasn't enough to tackle all

internal audit activities. The study provides both managerial & policy implications very well that are the strengths. When we come to its weakness, the findings are subject to common criticisms of the single case study method such as concerns about methodological rigor, researcher subjectivity, and external validity.

(Owodo, 2016) conducted a study to analyze the IA effectiveness of State-Owned Enterprises in Ghana. The study adopted the qualitative multiple case study approach. The findings of the study revealed that both internal and external factors have impact on internal audit effectiveness. The external factors are IA effectiveness influenced by government laws and regulatory institutions through coercive isomorphism. Within internal factors like inadequate IAF staff size and resource availability, poor audit relationships, insufficient top management supports impede IA effectiveness in SOEs. The study recommended that top management of the SOEs must exert more attention to the resource needs of the IAFs so that they can render their required services to their respective organizations & the Internal Audit Agency should step up its focus to the IAFs of SOEs. The strength of the study is it provides empirically-rich, context-specific, holistic accounts of the institutional pressures faced by an Indonesian SOE. & when we come to the weakness since the research approach adopted for the study was a qualitative case study approach criticized for its inability to generalize the outcome or findings.

(Kesto & Yisehak, 2022) examined factors that determine internal audit effectiveness among State- Owned Enterprises (SOEs) in Ghana. The study employed the survey approach. The results of the study showed that the size of the internal audit unit, the competence of internal audit staff, independence of the internal audit unit as well as good relationship between internal and external auditors were significant determinants of internal audit effectiveness. The research advocated; it is essential for related parties the management focus on the main factors so that effective internal audits will accomplish. The strength of this article is that it shows many empirical studies related to the topic that supports the finding.

(KASSAYE, 2023) investigated the internal audit practice of private commercial banks of Ethiopia by taking the mandatory guidance requirements of IPPF as a benchmark. A mixed research approach applies, and the data were collected by using questionnaires and document review. The study revealed that the mandatory guidance requirements conformance level within the selected Private Commercial Banks of Ethiopia did not move up to the expectation that satisfies the IAS. As a result, the researcher recommended that the existing healthy

conformance with mandatory Guidance requirements of the IPPF should keep up, and the inadequate has to make improvements until it satisfies the needs of all stakeholders. The strength of this study is it clearly shows the problem statement & it uses appropriate research methods, but when we come to the literature review it only includes local & limited empirical works of literature & it doesn't show much of the qualitative aspect of the study is its limitations.

(MENGESHA, 2021) accompanied research with a general objective of assessing the quality of internal audit practices of Oromia regional state; by taking the mandatory guidance elements of IPPF as a benchmark. A mixed research method applies in the study and the data collected by using questionnaires and document review. The finding of the study showed the mandatory guidance requirements conformance level within the public enterprises of Oromia regional state is below the expectation conformance. As a result, it recommends that the Quality Assurance and Improvement Program (QAIP) standard should care to curve all unsatisfactory conformances of the mandatory guidance requirements by public enterprises in Oromia reign. The strength of this study is it clearly shows the problem statement & it uses appropriate research methods, but when we come to the literature review it only includes local & limited empirical studies & it doesn't show the qualitative aspect of the research is a major weakness.

2.3 Knowledge Gap and Conclusion

Previously very few researches have taken place regarding internal auditing-related topics at various organizations in Ethiopia. By the definition of IIA, internal audit is a profession that is moving from its traditional view (approach) to the new risk-based view. (Younas & Kassim, 2019) stated internal audit, today alter from internal auditing yesterday, and before it is under continuous review and progress.

Therefore, as a global guidance-setting body, the IPPF organizes authoritative guidance that is promulgated by the IIA. The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as obligatory guidance and recommended guidance. Conformance with the principles outlined in mandatory guidance is required and essential for the professional practice of internal auditing. (IIA, 2017) As a result, as Power (2003, p. 379) suggests very little is known about the practice of internal audit functions in companies. Furthermore, (Getie Mihret et al., 2012) highlight the importance of investigating the practice of internal audit functions as it would enable researchers to decode motives for adopting particular practices or design features of the internal audit unit. Humphrey (2008) also laments the lack of qualitative research in examining internal audit issues even though audit functions are socially constructed.

It can be seen from the above discussion that the majority of the previous studies concerned on the effectiveness of internal audits in various organizations in Ethiopia. Only few studies were conducted on the area of assessing internal audit practices in different sectors and industries. As well, to to-date no, researches were done by paying attention to the practices of internal audit in SOEs of Ethiopia by taking the mandatory guidance elements: the revised international auditing standards and the code of ethics as a benchmark.

The review of the literature indicates that studies of internal audit practice in Ethiopia were limited. (Mihret, 2010) stated Ethiopia is a developing country in which internal audit practice is apparently not satisfactorily explored. A case study on an Ethiopian Government organization by (Mihret & Yismaw, 2007) detects limited internal audit effectiveness. This situation highlighted the need for more research to understand the internal auditing practices in Ethiopia.

CHAPTER 3: RESEARCH METHODOLOGY

The chapter outlines and explained the methodology employed to achieved the research objective and provided a brief overview of the research approaches, followed by the methodology adopted with proper justification for adopting a certain method, which in turn include sampling design and actual data collection tools, data presentation & analysis techniques used in the study.

3.1 Research Approach Adopted

Considering the research problem and objective, along with the philosophy of the different research approaches, a mixed research approach will be deemed appropriate for this study. The mixed-method research will have the objective of reviewing the internal audit practices of the Ethiopian Insurance Corporation in Ethiopia, using the mandatory guidance requirements of the IPPF as a benchmark. This study will therefore consist of two phases, in which a sequential mixed method will be characterized by the collection and analysis of qualitative data in the first phase, followed by the collection and analysis of quantitative data in the second phase.

Qualitative data will be used initially to have better insight and gain a riche understanding of the research problem. Moreover, it will be believed that using the qualitative method first (unstructured in-depth interviews with audit directors, supervisors, and officers) will lead the researcher to consider the internal audit practices of the EIC in addition to the determinants identified in the literature.

Therefore, in this study, the first phase will be qualitative, and its results will be used to inform the quantitative components. In the qualitative phase, data will be collected on internal audit practices by using the mandatory guidance requirements of the IPPF as a benchmark, through individual in-depth unstructured interviews.

3.1.1 Qualitative Aspect

This method will adopt an unstructured (in-depth) interview that will be helpful to find out what was happening and to see new insights. An in-depth (unstructured) interview will be the primary data collection technique used to gather data in the qualitative phase. It will be anticipated that this approach will provide the researcher with more accurate data that will enhance the findings of this study. An in-depth interview on the internal audit practices of the Ethiopian Insurance Corporation, using the IPPF as a benchmark, will be conducted with a

number of participants from the Corporation. The interviews will be held at the office, with each one conducted individually and independently.

3.1.2 Quantitative Aspect

The quantitative aspect of this study will follow the qualitative phase and will aim to validate and generalize the findings derived from the initial interviews. Structured questionnaires will be developed based on themes identified during the qualitative phase and the mandatory guidance requirements of the IPPF. These questionnaires will be distributed to a larger sample of internal audit professionals within the Ethiopian Insurance Corporation. The data collected will be analysed using statistical tools to identify patterns, relationships, and trends related to internal audit practices. The quantitative approach will enhance the reliability and generalizability of the study's findings.

3.1.3 Survey Design

In this study, a survey design will be employed as part of the quantitative research approach. The survey will be designed to collect standardized data from a larger sample of internal audit professionals within the Ethiopian Insurance Corporation. A structured questionnaire will be developed based on the findings of the qualitative phase and aligned with the mandatory guidance requirements of the IPPF. The questionnaire will include both closed-ended and Likert-scale items to measure perceptions, practices, and compliance levels related to internal auditing. The survey will be distributed either in person or electronically, depending on accessibility and respondent convenience. This design will enable the researcher to gather measurable data, ensure comparability across responses, and support statistical analysis to draw meaningful conclusions.

Population and Sampling Design

The population to be considered in this study will include all auditors within the Internal Audit Directorate, including management staff, as well as management bodies from five major districts operating in Addis Ababa. A purposive sampling technique will be employed to select participants from this population in order to obtain rich and relevant evidence. According to information from the Ethiopian Insurance Corporation, the population will consist of seven auditors, ten senior auditors, four principal auditors, one director, and fifteen senior management members from the districts operating in Addis Ababa.

The sampling design for this population will be purposive sampling, through which five major districts will be selected: Central Addis District, Northern Addis District, Eastern Addis District,

Western Addis District, and Southern Addis District.

Survey Instrument Design

The survey instrument that will be used in this study will be a structured, self-administered questionnaire, serving as the primary measurement tool. The questionnaire will consist entirely of closed-ended questions and will be developed based on the standards set by the IPPF, as well as quantitative insights derived from interviews with selected internal audit staff and management, including district management staff. This instrument will be designed to investigate the internal audit practices of the Ethiopian Insurance Corporation (EIC) in Ethiopia.

The survey questionnaire will have a cover letter that explains the purpose of the study to encourage the participant's response to the study. The letter also will explain the anonymity of the respondents would be maintained. The questionnaire will relate to the research objectives of this study. However, the researchers take out, and modify some questions with regard to their content and to easily describe the statements to the respondents. The questionnaire will organize into two sections. The first part will deal with a respondent profile or general information. The general information section will include seven questions that will relate to the participant's background and current status. While the second section will concern with questions relate to internal audit and the mandatory guidance of IPPF which measures variables of the study. The second part will hold 41 Likert scale questions that will target to analyze the research objective in a manageable, uniform, and objective way. The second part will divide into three sections & nine sub-sections. The first section is will compose of Likert scale questions which will about Attribute standard & will divide into three subsections with include statements regarding internal audit objectivity & independency, statements regarding internal audit staff proficiency & due professional care & statements regarding Quality Assurance & Improvement Program(QAIP); the second section will compose of twenty five Likert scale questions which will about performance standard and will divide in to six subsections with include statements regarding managing internal audit activity, a statement regarding nature of the work, a statement regarding engagements planning, a statement regarding communicating result & statement regarding monitoring progress; the third section will compose of four Likert scale questions which will about code of ethics.

Five-point Likert-scales will follow through indicating scores like as follows: (1) indicated

strongly disagree, (2) disagree, (3) neutral, (4) agree & (5) strongly agree. The numbers indicate in the questions provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis (Boone Jr. & Boone, 2012). The questionnaire was prepared in English.

The Conduct of the Survey

In this study, self-administered, structured questionnaire will be used. The structured questionnaires will be distributed to 22 employees of the EIC internal audit department staffs and 15 senior managements of large five districts which are operating in Addis Ababa. The survey will be conducted from February 29 to March 5, 2025.

Table 3.1 Sampling survey

Name of participant	Total number of Questioner will distribute
Auditors	7
Senior auditors	10
Principal auditors	4
Directors	1
Senior managements	15
Total	32

3.2 Data Analysis & Presentation

For this study, both qualitative and quantitative data analysis methods will be used. The thematic analysis will be used for the qualitative data analysis & the quantitative data analysis by using descriptive statistical tools & analysis progress developed using the Statistical Package for Social Science (SPSS v14).

The responses gathered from the questionnaire will be encoded in the SPSS version with a particular code. For simplicity, four quality levels will be set out as a yardstick to measure the conformance level of mandatory guidance requirements. These quality levels will be summarized as average mean values: >4.0 = adequate; 4-3.5 = well/fair/good/healthy; >3.0 = inadequate, and <3.0 = poor quality. More precisely, it will be measuring the average distance between the value of the data set and the mean. A low standard deviation will designate that the data points tend to be very close to the mean, High standard deviation will indicate that the data points spread out over a large range of values.

The collected data presented in the tables using descriptive statistical tools such as

percentage, frequencies, average, and Std. Deviation. Finally, based on the data collected analysis part, conclusions and recommendations will be forwarded.

3.3 Reliability Test & Validity

Reliability and validity are concepts used to evaluate the quality of research. They indicate how well a method, technique or test measures something. Reliability is about the consistency of a measure, and validity is about the accuracy of a measure (Fiona, 2020). To carry out the reliability analysis, Cronbach’s Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Cohen and Sayag, 2010). To measure the consistency of the questionnaire particularly the Likert-type scale, the reliability analysis is essential in reflecting the overall reliability of constructs, which it is measuring.

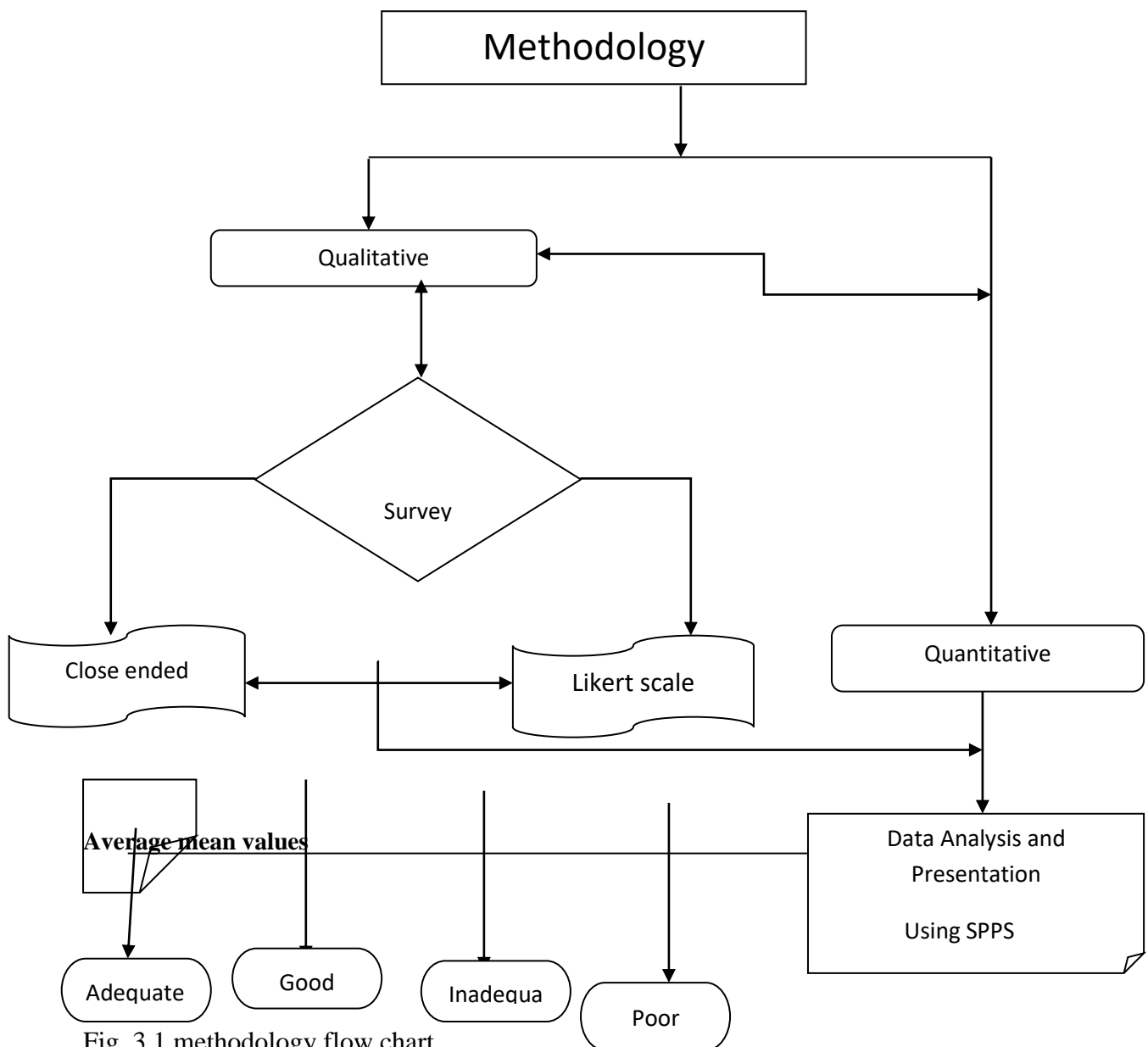


Fig. 3.1 methodology flow chart

CHAPTER4: Results and Discussion

This chapter presents the results and interpretation of data obtained from different source in the context of the existing knowledge as reviewed in chapter two. As already shown in the first chapter, the broad objective of this research was to investigate the internal audit practices of Ethiopian Insurance Corporation in light of the requirements of IPPF. Accordingly, this chapter arranged into three sections; the first section 4.1 presented the results of the qualitative & the quantitative aspect, 4.2. Covered discussions of result, and Section 4.3 holds conclusion.

4.1Results

The subsequent section outlines the results of qualitative & quantitative aspect. Specifically, section 4.1.1 Present the results of qualitative aspect it included in depth interview result & document review. Section 4.1.2 presents results of the quantitative aspect with are survey result.

4.1.1Qualitative Aspect In depth Interview & Document Analysis

In depth interview & document analysis was used in qualitative approach. The In-depth interview was conducted with senior internal auditors & chief audit executives of Ethiopian EIC. In addition to in-depth interviews document review was taken placed. Accordingly, internal audit manuals & the IPPF standards-2017 documents related to internal auditing practices were taken as documentary sources.

Regarding internal audit activities, the respondents noted that the internal audit performs based on a systematic approach. The systematic process consists of specifically audit planning, examining and evaluating information from fieldwork, report findings, and follow-up. The chief auditors clarify that the head internal auditor monitors the entire audit process from planning to completion & all the audit work documented in the audit work papers, including evidence of follow-up procedures and the disposition of deficiencies. The conclusions drowned within the audit reports are back by comprehensive supporting documents and competent, sufficient, and relevant evidence. In the in-depth interview, the senior auditors specified that the internal auditor's used these processes to determine audit priorities, set objectives, and audit resources and they mentioned the responsibility for Constructing & implementing a risk-based plan is the chief audit executive. The chief audit

executive review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems and controls. The respondents stated the plan considers the organization's strategies, objectives, and risks relevant to the engagement & reporting also includes significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and the board. The chief audit executive established a follow-up process to monitor and ensure that management actions have well implemented.

Concerning objectivity & independence, most of the respondent's state that no problem observes about objectivity in the enterprise. The respondents mention that the chief audit executives assured that the auditors perform their tasks objectively by the procedures set by the enterprise & the standard of IAS. The respondent revealed, internal auditors won't assign to audit areas they participated & they are free from any biased attitude & conflict of interest. Moreover, auditors are strongly encouraged to refer to practice advisories in the interpretation and implementation of the specific standards.

The in-depth interview results regarding due professional care & continues training stated the Internal auditors apply the care and skill expected of a reasonably prudent and competent internal auditor but, a gap observed in the enhancement of their knowledge and skill through continues professional development training. According to the chief audit executives they know the fact that internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. But they mention training programs didn't get much attention. Most of the respondents stated that this gap is observed because low deliberation was preset to the internal audit department.

The chief executive auditors mentioned in their organization quality assurance and improvement program includes both internal & external assessments. The internal valuation takes place by the chief auditors; perform ongoing monitoring in the internal audit activity performance and periodic self-assessment. And in accordance, the external evaluation investigates all payments, acquisition, purchase, sales, inventories, and related entries audited by external auditors once every single year. The event can prove the assessment is encouraging and audited once every year under the period limit of five years set by the internal audit standards. The respondents mentioned that the code of ethics governs the behavior of individuals in conducting internal auditing. The respondent warranted that the

ethics consider integrity, objectivity, conditionality & competency. They mentioned some characters that reflect this, internal auditors make a balanced assessment of all the relevant circumstances, and they are not unduly influenced by their interests or by others in forming judgments. And they mentioned that internal auditors respect the value & do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

In addition to in-depth interviews to be certain about the internal audit practice of EIC,s document review was undertaken. Accordingly, their audit manual includes all the mandatory standard and steps. The working paper also clearly includes the overall planning, risk assessment and prioritization, fieldwork, reporting, and follow-up of the audit trail.

4.1.2 Quantitative Aspect-Survey Results

The self-administered questionnaires were distributed to 37 employees of the EIC internal audit department and top managements of selected districts however, the survey response was collected from only 32 respondents 5 failed to respond. Yesegat (2008)stated the response rate of 71.8 percent was reasonably good in consideration of the difficulty to collect data in poor developing countries, Ethiopian particular. For this study, 105 useable questionnaires were obtained with a response rate of 86.49 percent, which is fairly representative.

Accordingly, this section classified into two, the first section presents respondents' profiles in terms of gender, age, area of study, and so on, and the second one holds statements regarding attribute standards, performance standards & the code of ethics.

4.1.1.1 Respondents' Profile

In terms of gender, the survey data revealed that about 71 percent were male while the remaining respondents were female (Table 4.1). Similarly, as the data showed most survey participants were in the range of 18-25 years of age (see Table 4.1).

Table4.1: Respondents gender and Age

Variables	Classification of Variables	Frequency	Percent
	Male	23	71.9%
Gender	Female	9	28.1%

Age	18-25	14	43.8%
	26-35	5	15.6%
	36-45	6	18.8%
	46-55	7	21.8%

Source: Survey Result and Own Computation

The survey indicated 56.3% of the participants were accounting qualified whereas, 81% were degree holders the remaining 19 percent were masters“ holders. Regarding audit related certification, 99% of the participants do not have related certification.

Table4.2: Respondents field of study, educational level and Related Certification

Variables	Classification of Variables	Frequency	Percent
Field of Study	Accounting	18	56.3%
	Management	9	28.1%
	Economics	3	9.4%
	Other	2	6.2%
	Diploma	-	-
Educational Level	BSC/BA	26	81%
	MSC/MA/MBA	6	19%
	Other	-	-
Related Certification	ACCA		
	CPA		
	CIA		
	No related certification	32	100%

Source: Survey Result and Own Computation

The survey shows, the sample population by large dominated by international auditors and

the majority had work experience of between 1-5 years. Internal auditors represented about 68% of survey respondent.

Table 4.3: Respondents position and years of experience

Variables	Classification of Variables	Frequency	Percent
Position in the Enterprise	Manager/supervisor	10	31.3%
	Principal Auditors	4	12.5%
	Senior internal Auditor/inspector	10	31.3%
	Internal Auditor	7	21.9%
	Other	1	3%
Auditing Experience	Less than 5years	18	56.2%
	5-10years	10	31.3%
	11-15years	2	6.3%
	16-20years	1	3.1%
	Above 20years	1	3.1%

Source: Survey Result and Own Computation

Regarding the internal audit department staffing, 68.8% stated their internal audit department staffing as moderately staffed & 18.8% justify their audit department as adequately staffed the remaining 14, by taking 12.4% share percentage, define their audit department as poorly staffed.

Table 4.4: Auditing department staffing

Variables	Classification of Variables	Frequency	Percent
Internal Audit Department staffing	Adequately staffed	6	18.8%
	Moderately staffed	22	68.8%
	Poorly staffed	4	12.4%

Source: Survey Result and Own Computation

4.1.2.2 Compliance with the International Auditing Standards

This section evaluates the extent to which the internal audit practices of the Ethiopian Insurance Corporation (EIC) align with International Auditing Standards. These standards, together with the Code of Ethics, constitute the essential and mandatory components of the International Professional Practices Framework (IPPF).

Internal Audit Objectivity

To assess the EIC’s adherence to internal audit objectivity, four key questions were developed based on relevant auditing standards. These questions served as indicators to evaluate the level of objectivity maintained by the internal audit function.

The overall mean score for internal audit objectivity was **3.93**, suggesting a strong level of compliance. The highest average score, **4.29**, indicates that internal auditors are not assigned to audit areas in which they were previously involved in system design, reinforcing their independence and impartiality. Additionally, the consistency in responses among internal auditors is reflected in the low standard deviation of **0.64**, indicating limited variation in their perceptions regarding objectivity.

Table4.5: Internal Audit Objectivity

Statements	N	Min	Max	Mean	Std. De
Internal auditors are not assigned to audit Areas in the system design of which they participated	32	1	5	4.29	.817
Internal auditors have an impartial, unbiased Attitude and avoid any conflict of interest.	32	1	5	4.21	.646
If objectivity is impaired in fact the details Of the impairment disclosed to appropriate parties of the organization.	32	2	5	3.93	.880

There is a dual reporting relationship the head of Audit report functionally to the Audit committee and to the president.	32	1	5	3.82	1.017
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Source: Survey Result and Own Computation

Internal Audit Independency

To evaluate the level of compliance with internal audit independence standards at the Ethiopian Insurance Corporation (EIC), four assessment questions were formulated based on relevant professional standards.

The findings indicate that the EIC demonstrates a healthy level of conformance with the internal audit independence standard, as reflected by an overall mean score of **3.98**. Additionally, the level of agreement among internal auditors showed minimal variation, with a relatively low average standard deviation of **0.73**, indicating consistent perceptions across respondents.

Table 4.6: Internal Audit Independency

Statements	N	Min	Max	Mean	Std. De
The board of directors (or audit committee) Oversees employment decisions in internal audit	32	1	5	3.75	.969
Internal auditors do not participate in audit of activities for the operation of which they were responsible	32	1	5	4.00	.844
Internal auditors feel free to include any audit Findings in their audit reports	32	1	5	4.11	.880
If independency is impaired in appearance, the details of the impairment disclosed to Appropriate parties of the organization.	32	2	5	4.08	.730

Source: Survey Result and Own Computation

Internal Audit Staff Proficiency and Due Professional Care

This section evaluates the EIC’s adherence to the internal audit standard related to staff proficiency and the exercise of due professional care. Three questions were developed based on the relevant standard to serve as benchmarks for assessing the level of compliance, and the findings are summarized below.

As shown in Table 4.7, the average mean score of **3.99** indicates a satisfactory level of compliance with the standard on staff proficiency and due professional care. In addition, the standard deviation of **0.69** suggests that there was relatively low variability in the responses, indicating a consistent perception among internal auditors regarding this aspect.

Table4.7: Internal Audit Staff Proficiency and due Professional Care

Statements	N	Min	Max	Mean	Std. De
Internal auditors possess the knowledge, skills, and other competencies needed to perform their Individual responsibilities.	32	1	5	4.10	.784
Internal auditors always apply the care and skill Expected of a reasonably prudent and competent internal auditor.	32	1	5	4.18	.690
Internal auditors enhance their knowledge, skill, and other competencies through continuing Professional development.	32	1	5	3.71	.906

Source: Survey Result and Own Computation

Quality Assurance and Improvement Program (QAIP)

This section assesses the level of conformance of the Ethiopian Insurance Corporation (EIC) with the Quality Assurance and Improvement Program (QAIP) standards. Five questions were developed based on QAIP requirements, which include both internal and external evaluations, to serve as benchmarks for analyzing compliance. The results are presented below.

Based on feedback from internal auditors, the QAIP standard was generally perceived to be adequately implemented, as indicated by an overall average mean score of **3.58**. However, the responses showed a relatively high level of variation, with an average standard deviation

of **0.76**, suggesting differing perceptions among respondents. The lowest mean scores ranged between **3.32** and **3.41**, indicating areas for improvement, particularly in relation to the frequency and communication of external assessments. On the other hand, the highest mean score of **3.88** suggests that QAIP activities contribute positively to ensuring that internal audit practices align with international standards.

Table4.8: Internal Audit Quality Assurance and Improvement Program (QAIP)

Statements	N	Min	Max	Mean	Std. De
The quality assurance and improvement program Includes both internal & external assessments.	32	1	5	3.72	.814
The internal assessment of quality assurance and improvement includes-ongoing monitoring of the performance of internal audit activity, periodic self- assessment or assessments by other persons within the organization with sufficient knowledge of Internal audit practices	32	2	5	3.56	.570
The external assessment is conducted at least once Every five years by a qualified, independent assessor from outside the organization.	32	1	5	3.41	.840
The chief audit executive communicates at least once every five years by a qualified, independent Assessor from outside the organization.	32	1	5	3.32	.740
The internal audit activities conformance to International standards is supported by results of QAIP.	32	1	5	3.88	.840

Source: Survey Result and Own Computation

4.1.2.3. Conformance with Performance Standards

Performance Standards define the essential characteristics and expectations of internal auditing practices. This section presents the findings related to various performance standard indicators.

Managing the Internal Audit Activity

To evaluate how effectively the internal audit function is managed within the Ethiopian Insurance Corporation (EIC), a series of questions were developed based on relevant standards from the Institute of Internal Auditors (IIA). These questions served as benchmarks to assess the quality of internal audit activity management, and the results are summarized below.

The analysis yielded an overall mean score of **3.91**, indicating a strong level of compliance with the performance standards. All individual statements received relatively high mean values, with the highest being **4.12**. This was in response to the statement that the Chief Audit Executive (CAE) regularly reports to senior management and the board regarding internal audit activities, performance against the audit plan, and compliance with the Code of Ethics and applicable standards. Furthermore, the standard deviation of **0.74** suggests minimal variability in the internal auditors' perceptions, indicating consistent views across respondents.

Table4.9: Managing the Internal Audit Activity

Statements	N	Min	Max	Mean	Std. De
While developing the risk-based audit plan, the chief audit executive consults with senior management and the board and obtains an understanding of the EICs strategies, key business objectives, associated risks, and risk Management processes.	32	2	5	3.97	.596
The chief audit executive communicates the internal audit activist's plans and resource requirements, including significant interim changes, to senior management and the board for Review and approval.	32	1	5	3.75	.852

The chief audit executive ensures that internal audit resources are appropriate ,sufficient ,and Effectively deployed to achieve the approved plan.	32	2	5	3.95	.671
The chief audit executive establishes policies and Procedures to guide the internal audit activity.	32	2	5	3.92	.646
The chief audit executive shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of Efforts.	32	2	5	3.73	.923
The chief audit executive reports periodically to senior management and the board on the internal audit activities and performance relative to its plan and on its conformance with the Code of Ethics And the Standards.	32	1	5	4.12	.768

Source: Survey Result and Own Computation

Nature of the Work

This section evaluates how the internal audit function at the Ethiopian Insurance Corporation (EIC) aligns with the standards related to the **nature of the work**. Three questions were developed based on these standards to serve as benchmarks for assessing how well the internal audit activities are managed. The results are summarized below.

The average mean score of **4.40** indicates strong compliance with the key components of the standard. Specifically, the results show that the internal audit function at the EIC effectively addresses three critical areas: the assessment of corporate governance, the evaluation of risk management processes, and the support for maintaining a robust internal control system. These elements are well integrated into audit activities. Although the overall perception was positive, some variation in responses among internal auditors was observed, as indicated by a standard deviation of **0.60**, suggesting a moderate level of diversity in individual assessments.

Table4.10: Nature of the Audit Work

Statements	N	Min	Max	Mean	Std. Dev.
The internal audit activity assesses and makes appropriate recommendations EICs governance processes.	32	2	5	4.53	.556
The internal audit activity evaluates the effectiveness And contributes to the improvement of risk management processes.	32	1	5	4.30	.733
The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting Continuous improvements.	32	2	5	4.38	.544

Source: Survey Result and Own Computation

Engagements Planning

This section assesses the EIC’s level of compliance with the standards related to **engagements planning**. Five questions were developed based on these standards and used as benchmarks to evaluate the quality of audit planning processes within the EIC. The summarized results are presented below.

The overall average mean score for engagement planning was **4.23**, indicating a high level of compliance. The highest mean value of **4.31** was observed in two areas: consideration of the organization's strategies and objectives during engagement planning, and the establishment of clear objectives for each audit engagement based on risk assessments. These findings suggest that the EIC places strong emphasis on aligning audit planning with strategic priorities and potential risk areas. The consistency of responses among internal auditors was reflected in a relatively low average standard deviation of **0.59**, indicating minimal variation in perceptions.

Table 4.11: Regarding Engagements Planning

Statements	N	Min	Max	Mean	Std. De
In planning the audit engagement, internal Auditors consider: the strategies and objectives of the activity being reviewed.	32	1	5	4.31	.684
Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors ,fraud ,noncompliance, and other Exposures.	32	2	5	4.31	.577
The established scope is sufficient to achieve the objectives of the engagement: it includes consideration of relevant systems, records, Personnel, and physical properties and others.	32	2	5	4.24	.546
Internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available Resources.	32	2	5	4.22	.604
Internal auditors develop and document work programs that achieve the engagement objectives (work programs include the procedures for identifying, analyzing, evaluating, and documenting information during the Engagement).	32	2	5	4.25	.551

Source: Survey Result and Own Computation

Performing the engagement

Four questions based on the engagement standards were used as benchmarks to evaluate the compliance level within the Ethiopian Insurance Corporation (EIC). The findings are summarized below. The overall average mean score for the performance of engagement was **4.41**, with each statement reflecting a strong level of agreement. Furthermore, the auditors' responses showed minimal variation, as evidenced by the relatively low average standard deviation of **0.59**.

Table 4.12: Performing the Engagement

Statements	N	Min	Max	Mean	Std. Dev.
Internal auditors identify, analyses, evaluate, and document sufficient information to achieve the engagement's objectives.	32	1	5	4.54	0.605
Internal auditors' base conclusions and engagement results on appropriate analyses and evaluations.	32	1	5	4.46	0.605
Internal auditors document sufficient, reliable, relevant, and useful information to support engagement results and conclusions.	32	1	5	4.36	0.590
Audit engagements are properly supervised to ensure objectives are achieved, quality is assured, and staff development is promoted.	32	2	5	4.28	0.563

Source: Survey Result and Own Computation

Communicating the Results

Six questions based on the standards for communicating audit results were used as benchmarks to assess the level of compliance within the Ethiopian Insurance Corporation (EIC). The summarized findings are presented below.

The data indicate that EIC generally adheres well to the communication standards, with an overall average mean score of **4.1**. Additionally, there was low variation in auditors' perceptions about this standard, as shown by an average standard deviation of **0.67**.

Table 4.13: Communicating the Results

Statements	N	Min	Max	Mean	Std. Dev.
Communications include the engagement's objectives, scope, and results.	32	2	5	4.39	0.546
Communications are accurate, objective, clear, concise, constructive, complete, and timely.	32	2	5	4.24	0.528
When a final communication contains a significant error or omission, the chief audit executive promptly informs all recipients of the corrected information.	32	2	5	4.19	0.681
Engagements are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, supported by results from quality assurance and improvement programs.	32	1	5	4.01	0.766
If non-compliance with the Code of Ethics or Standards affects an engagement, the communication discloses the area of non-compliance, the reasons, and its impact.	32	2	5	3.82	0.662
The chief audit executive reviews and approves the final engagement communication before it is issued and determines to whom and how it will	32	1	5	3.95	0.870

Statements	N	Min	Max	Mean	Std. Dev.
be distributed.					

Source: Survey Result and Own Computation

Monitoring Progress (Follow-up) Standards

A question based on the Monitoring Progress standard was formulated to assess the level of compliance within the Ethiopian Insurance Corporation (EIC).

The results show that the majority of internal auditors believe this standard is being effectively implemented, as reflected by an average mean score of **4.13**.

Table 4.14: Monitoring Progress

Statements	N	Min	Max	Mean	Std. Dev.
The chief audit executive establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.	32	1	5	4.13	0.797

Source: Survey Result and Own Computation

4.1.2.4. Conformance with the Code of Ethics

Four questions were developed based on the Code of Ethics to evaluate the degree of compliance within the Ethiopian Insurance Corporation (EIC). The summarized results are as follows.

Table 4.15 shows that compliance with the Code of Ethics was considered satisfactory, with an average mean score of **4.33**. Furthermore, a low standard deviation of **0.66** indicates that there was little variation in the perceptions of the internal auditors. Overall, the findings suggest that internal auditors consistently and adequately conform to ethical standards.

Table 4.15: Code of Ethics

Statements	N	Min	Max	Mean	Std. Dev.
The integrity of internal auditors builds trust, providing a foundation for confidence in their judgment.	32	1	5	4.17	0.713
The integrity of internal auditors builds trust, providing a foundation for confidence in their judgment.	32	1	5	4.17	0.713
Internal auditors maintain the highest level of professional objectivity when collecting, assessing, and communicating information regarding the audited activity or process.	32	1	5	4.22	0.679
Internal auditors respect the confidentiality and ownership of information received, disclosing it only with proper authority unless legally or professionally obligated to do otherwise.	32	1	5	4.53	0.651
Internal auditors utilize the necessary knowledge, skills, and experience to effectively perform internal auditing services.	32	1	5	4.41	0.600

Source: Survey Result and Own Computation

4.2. Discussion

This section summarizes the findings gathered from in-depth interviews, questionnaires, and document reviews conducted with key informants.

4.2.1. Internal Audit Activity (IAA)

Within the Ethiopian Insurance Corporation (EIC), internal audit operations are governed and supervised by the Federal Audit Bureau. The bureau's internal audit manual clearly defines the scope, authority, and responsibilities of internal auditors, aligning closely with the Institute of Internal Auditors (IIA) standards. According to the Federal Audit Bureau, internal auditors are responsible for delivering independent and objective assurance and consulting services aimed at enhancing the efficiency and effectiveness of public sector organizations. These duties focus on providing value-added services that support organizational improvement.

Interview insights confirmed that the internal audit function at EIC follows a systematic and well-structured approach. This audit process involves comprehensive planning, meticulous fieldwork, and thorough evaluation of gathered information, clear reporting, and consistent follow-up. It explicitly outlines the auditors' scope, authority, and responsibilities while offering detailed guidance on conducting and documenting audit work. This structured methodology is consistent with the framework described by Reding et al. (2013), which highlights that assurance and consulting engagements should adhere to a disciplined process to deliver real value and operational improvements.

Survey results showed that compliance with internal audit activity standards at EIC is generally satisfactory, with average scores above 3.5. Interview data also revealed that chief audit executives actively collaborate with senior management and board members in formulating risk-based audit plans, gaining a thorough understanding of the organization's strategic goals, key objectives, risks, and risk management practices.

Moreover, findings related to audit engagement planning indicated that internal auditor's factor in the strategic objectives and operational goals of each audited area. Survey feedback confirmed that EIC demonstrates a solid level of compliance with engagement planning standards.

The study further revealed strong conformity with reporting standards. The Ethiopian Insurance Corporation consistently includes essential elements in audit communications—such as clear presentation of engagement objectives, scope, and findings. These

communications are characterized by accuracy, timeliness, completeness, and constructiveness. The Chief Audit Executive (CAE) is tasked with reviewing and approving all final reports before distribution. These communications are well aligned with organizational strategies and risk profiles, as evidenced by a high average score of 4.39. This supports Sawyer et al. (2013), who emphasize the importance of effective communication across organizational levels for successful auditing. Similarly, Fadzil et al. (2005) highlight how comprehensive audit scopes and work contribute to strengthening internal controls and information systems.

In summary, the overall evidence suggests that internal audit activities within EIC are carried out in line with established standards. This finding differs from the observations of Radasi and Barack (2015), which identified shortcomings in EIC's performance auditing particularly where outsourced functions fail to align with internal methods and preferred practices of the organization.

4.2.2. Objectivity and Independence

According to Ethiopia's Public Enterprise Proclamation No. 25/1992, internal auditors must remain impartial, avoid bias, and steer clear of conflicts of interest. Interviews at the Ethiopian Insurance Corporation (EIC) confirmed that internal auditors adhere to these independence standards. Specifically, auditors avoid reviewing areas where they previously had operational roles, freely report all findings without limitations, and disclose any real or perceived threats to their independence to the proper authorities. Auditors also refer to professional practice advisories to guide their understanding and application of standards, ensuring their objectivity and independence throughout audits. Survey results support these findings, showing that internal audit decisions at EIC comply with established standards. Auditors reported no restrictions on reporting audit findings and properly disclosed any issues affecting their independence, whether real or perceived. Overall, no major concerns were found regarding auditor objectivity and independence at EIC. These results align with academic research emphasizing that auditor effectiveness depends on independence and objectivity (Raghunandan & McHugh, 1994; Christopher, Sarens, & Leung, 2009). In conclusion, EIC's internal audit function demonstrates strong commitment to maintaining objectivity and independence, as evidenced by interviews, surveys, and document reviews.

4.2.3. Proficiency and Due Professional Care

Survey data revealed that EIC's internal audit team largely consists of young and relatively inexperienced auditors, mostly aged 18 to 25, with degrees in accounting but nearly all (99%) lacking specific internal audit certifications. The internal audit departments were generally described as only moderately staffed.

According to the Ministry of Finance (MoF, 2004), having a sufficiently staffed and skilled internal audit team is essential for organizational effectiveness. Inadequate staffing can lead to oversight failures, errors, and negligence, or even fraud, compromising control systems. Both the number and quality of auditors are critical; one cannot compensate for a deficiency in the other. Interviews highlighted a lack of professional development and training opportunities, attributed to low prioritization of internal audit functions at EIC. Chief audit executives recognized the importance of ongoing professional development but noted insufficient support for internal training programs.

Academic studies reinforce these concerns. Cohen and Sayag (2010) and Belay (2007) stressed that audit coverage and professional diligence affect audit quality. Arena and Azzone (2009) noted that audit effectiveness improves with a higher ratio of professional auditors to support staff.

Technical skills and continuous training are vital for quality audits. Certification is an important indicator of auditor competence (Gramling & Meyers, 1997), and auditors must possess relevant expertise to be effective (Al-Twaijry, Brierley, & Gwilliam, 2003). Given the expanding role of internal auditing, it's crucial that EIC employs auditors with diverse skills. Experience is also important for auditor knowledge and capability (Butt, 1988; Libby & Frederick, 1990; Bonner & Lewis, 1990).

In summary, while EIC has established internal audit functions, it needs to improve auditor proficiency through better staffing, certification, and ongoing professional development to meet modern auditing demands.

4.2.5. The Code of Ethics

Interviewees indicated that EIC's internal audit practices comply with the IIA Code of Ethics, emphasizing integrity, objectivity, confidentiality, and competence. Auditors consistently make impartial decisions based on balanced judgment and are not influenced by personal or external pressures. They strictly follow confidentiality requirements, only sharing information when authorized or legally required.

Survey results supported these views, with the code of ethics scoring an average of 4.33 and a low standard deviation of 0.66, showing consistent ethical behavior across the organization. This matches Burnaby et al. (2009), who affirm that adherence to the IIA's Code of Ethics and Standards is mandatory for internal auditors.

4.3. Conclusion

This chapter integrated both qualitative and quantitative findings to address the overarching research objectives and questions. A sequential mixed-methods approach was used, beginning with qualitative data from in-depth interviews with senior internal auditors and Chief Audit Executives, followed by quantitative data gathered via structured questionnaires.

The survey data, analyzed using descriptive statistics, validated the qualitative insights and assessed the reliability of the research instrument. The calculated mean values for each standard demonstrated alignment with the Attribute Standards, Performance Standards, and Code of Ethics, thus affirming compliance with all mandatory components of the International **Professional Practices Framework (IPPF)**.

In summary, the findings confirm that the Ethiopian Insurance Corporations largely in conformance with the IPPF's essential requirements, laying a strong foundation for the conclusions and recommendations presented in the subsequent chapter.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

The previous chapter analyzed the research findings, while this chapter presents the conclusions drawn and corresponding recommendations based on the study results.

5.1. Conclusions

This study set out to examine internal audit practices within Ethiopia's State-Owned Enterprises (SOEs), with particular attention to the Ethiopian Insurance Corporation (EIC). Although limited prior research has focused on internal auditing in Ethiopia, and none have comprehensively addressed the application of mandatory elements of the International Professional Practices Framework (IPPF) in EIC, this study aimed to fill that gap using a mixed-methods approach to ensure comprehensive insight.

Key findings are summarized below:

Internal Audit Staffing and Demographics: -The internal audit teams within the Ethiopian Investment Corporation (EIC) are predominantly composed of young professionals, primarily aged 18–25, holding undergraduate degrees in accounting. While many possess bachelor's degrees, there is a notable absence of advanced qualifications or professional certifications among the staff. The internal audit departments are considered to be moderately staffed, with team sizes that are typical for organizations of similar scale.

Internal Audit Activity (IAA) The internal audit functions within the Ethiopian Insurance Corporation (EICs) adhere to a structured methodology encompassing planning, risk assessment, fieldwork, reporting, and follow-up. The average means scores indicate a moderate level of adherence (above 3.5) to established IAA standards. Chief Audit Executives (CAEs) engage with management during audit planning, communicate resource requirements, ensure adequate staffing, establish audit procedures, and report findings in alignment with standards.

Objectivity and Independence: - The internal audit practices within the Ethiopian Insurance Corporation (EICs) adhere to the standards of independence and objectivity as outlined by the

Institute of Internal Auditors (IIA). This adherence is demonstrated through a dual reporting structure, where Chief Audit Executives (CAEs) report functionally to the board or audit

Committee and administratively to senior management. This arrangement ensures that internal auditors maintain impartiality and autonomy in their work, free from undue influence or bias.

Proficiency and Due Professional Care: -While internal auditors within the organization demonstrate the necessary diligence and competence expected of professionals, there are significant deficiencies in continuous professional development. A majority of auditors lack recognized certifications, and available training programs are either nonexistent or inadequate.

This absence of certification, training, and a structured policy framework introduces risks that may compromise the quality and effectiveness of audit performance.

Quality Assurance and Improvement Program (QAIP):-The implementation of the Quality Assurance and Improvement Program (QAIP) adheres to professional standards, encompassing both internal monitoring and annual external assessments conducted by independent parties. Survey results indicate a mean value of 3.58, reflecting moderate compliance with QAIP standards. These findings challenge previous assertions, such as those by Radasi & Barack (2015), which claimed that State-Owned Enterprises (SOEs) lack quality assurance mechanisms.

Code of Ethics:- Ethical principles integrity, objectivity, confidentiality, and competency were consistently upheld across the Ethiopian insurance corporation (EICs). Internal auditors demonstrated sound judgment, professional integrity, and compliance with confidentiality requirements, as outlined by the Institute of Internal Auditors (IIA). These practices align with the IIA's Code of Ethics, which emphasizes the importance of these principles in maintaining trust and ensuring the effectiveness of internal auditing activities.

Summary: Internal audit practices within the Ethiopian Insurance Corporation (EIC) generally align with key elements of the International Professional Practices Framework (IPPF), particularly in areas such as independence, objectivity, the Quality Assurance and Improvement Program (QAIP), and adherence to ethical standards. However, there are

notable deficiencies in areas related to proficiency, professional development, and staff certification. Conformance with performance standards including managing Internal Audit Activities (IAA), engagement planning, execution, and reporting is moderate but not yet optimal. In contrast to earlier studies, such as Yishak (2013), which indicated limited alignment with international standards, this study finds that internal audit practices within EIC, are increasingly conforming to the IPPF's mandatory elements, suggesting significant progress in compliance.

5.2. Recommendations

Recommendations for Strengthening Internal Audit Practices

- 1. Enhance Alignment with IPPF Standards:** Ensure continuous adherence to all mandatory elements of the International Professional Practices Framework (IPPF), with particular emphasis on areas concerning auditor proficiency and professional care.
- 2. Establish a Comprehensive Training Policy:** Develop and implement structured professional development programs tailored to the needs of internal auditors, promoting continuous learning and skill enhancement.
- 3. Promote Professional Certification:** Encourage and support auditors in obtaining recognized certifications such as Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Ethical Hacker (CEH), and Association of Chartered Certified Accountants (ACCA). These certifications enhance credibility and effectiveness in audit functions.
- 4. Optimize Staffing and Resource Allocation:** Review and adjust staffing levels and allocate sufficient resources to internal audit departments to ensure effective operations and the ability to meet organizational objectives.
- 5. Facilitate Access to Certification Opportunities:** Provide auditors with access to internationally recognized audit certification programs, fostering technical expertise and elevating the overall quality of audit services.

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Addis Ababa University
College of Business and Economics

Department of Accounting and Finance Survey Instrument

Dear Participant:

The title of this thesis is " Effectiveness of Internal Audit Practices: In the of Ethiopian Insurance Corporation". The name of the researcher is Abiye Zeleke in the College of Business and Economics of the Addis Ababa University. The aim of this project is to assess internal audit practices of Ethiopian Insurance Corporation by taking the IPPF as a bench mark. This questionnaire is prepared to supplement the data obtained from other sources.

This survey questionnaire is being distributed to get relevant information from respondents and participation is totally voluntary. The investigator respectfully requests your kind cooperation in answering the whole question as frankly as possible and your response will be recorded anonymously and strict confidentiality will be maintained.

For further information, please contact using the following address:

Tel. (mobile): 0942490011

E mail: zelekeabiye@gmail.com

Part One

Demographic Data of the Respondent

(Please tick the box for the alternatives that best describes your choice)

1. Gender

Male 1

Female 2

2. Age

18-25Years 1

36-45 Years 3

56 and above 5

26-35 Years 2

46-55Years 4

3. Area of study

Accounting 1 Management 2 Economics 3 Other please specify.....4

4. Educational Level:

Diploma 1 BSC/BA 2 MSC/MA/MBA 3 Others please specify.....4

5. Any certification related to the profession:

ACCA 1 CPA CIA No related certification

6. What is your current position in the organization?

Manager/Supervisor 1 Team Leader/ Assistant
 Senior Internal Auditor/Inspector 3 Internal auditors/ Inspector
 Others please specify.....5

7. Total years of auditing experience including the current position
 Less than 5 years 5-10 years 11-15 years
 16-20 years 4 Above 20 years
8. Your internal audit unit/department staffing:
 Adequately staffed moderately staffed poorly staffed 3

Part Two

For the following statements on attribute of internal audit practices in your organization, please show your choice (the scales ranging from strongly disagree to strongly agree) by putting “√” under the appropriate cell in the table.

S.NO		Attributes	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agreed (5)
1	A. Statement regarding the structure, roles, and responsibilities of the internal audit function						
1.1	Organization structure	The internal audit department at EIC has a clearly defined organizational structure.					
1.2	Roles and responsibility	Internal audit roles and responsibilities are well-communicated across the organization.					
1.3	independency	The internal audit function operates independently of executive management.					

1.4	Flow of information	There is a clear reporting line between internal audit and the board or audit committee.			
2	B. Statement regarding compliance with internal audit standards and guidelines				
2.1		Compliance with internal audit policies is regularly reviewed and assessed.			
2.2		There are clear guidelines for conducting audits at EIC.			
2.3		Audit reports are prepared in accordance with accepted professional standards.			
2.4		EIC's internal audit activities follow national and international audit standards.			
3	C. Statements regarding adequacy and frequency of internal audit procedures and reporting				
3.1		Internal audits are performed frequently enough to identify and address risks.			
3.2		The scope of audit procedures adequately covers all critical operational areas.			
3.3		The current audit frequency supports transparency and accountability in operations			
3.4		Internal audit reports provide relevant and actionable recommendations.			

3.5		Internal audit reports are submitted on time and regularly.					
4	D. Statements regarding impact of internal audit findings and recommendations on management decision-making and organizational performance						
4.1		Management takes internal audit findings into consideration when making decisions.					
4.2		Internal audit recommendations have led to measurable improvements in performance.					
4.3		Audit reports have influenced changes in policies or procedures at EIC.					
4.4		Internal audit outcomes are used as a basis for strategic planning.					
4.5		There is follow-up to ensure audit recommendations are implemented.					
5	D. Statements regarding challenges and limitations in the internal audit department of EIC						
5.1		The internal audit department faces staffing constraints.					
5.2		Budget limitations hinder the effectiveness of internal audit activities.					
5.3		Management interference affects audit independence.					

5.4		There is a lack of access to necessary data or records during audits.					
5.5		Internal auditors face resistance from other departments during audits.					

II. Performance Standards

5.		E. statement regarding managing the internal audit activity					
5.1	Planning	While developing the risk-based audit plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organizations strategies, key business objectives, associated risks, and risk management processes.					
5.2	Communication & Approval	The chief audit executive communicates the internal audit activist's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.					
5.3	Resource Management	The chief audit executive ensures that internal audit resources are					

		appropriate, sufficient, and effectively deployed to achieve the approved plan.					
5.4	Policies & Procedures	The chief audit executive establishes policies and procedures to guide the internal audit activity.					
5.5	Coordination & Reliance	The chief audit executive shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of efforts.					
5.6	Reporting to the Senior management & the Board	The chief audit executive reports periodically to senior management and the board on the internal audit activities and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.					
6	F. Statements regarding nature of the work						
6.1	Governance	The internal audit activity assesses and makes appropriate recommendations to improve the organizations governance processes.					
6.2	Risk Management	The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes.					
6.3	Control	The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency					

		and by promoting continuous improvements.					
7	G. Statements regarding engagements planning						
7.1	Planning Considerations	In planning the audit engagement, internal auditors consider: the strategies and objectives of the activity being reviewed.					
7.2	Engagement Objectives	Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.					
7.3	Engagement Scope	The established scope is sufficient to achieve the objectives of the engagement: it includes consideration of relevant systems, records, personnel, and physical properties and others.					
7.4	Engagement Resource Allocation	Internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available resource					
7.5	Engagement Work Programs	Internal auditors develop and document work programs that achieve the engagement objectives (work programs include the procedures for identifying, analyzing, evaluating, and documenting information during					

		the engagement).					
8	H. Statements regarding performing the engagement						
8.1	Identifying Information	Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.					
8.2	Analysis and Evaluation	Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.					
8.3	Documenting Information	Internal auditors" document: sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.					
8.4	Engagement Supervision	Audit engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed.					
9	I. statement regarding communicating result						
9.1	Criteria for Communication	Communications include the engagements" objectives, scope, and results.					
9.2	Quality of Communication	Communications are accurate, objective, clear, concise, constructive, complete and timely.					
9.3	Errors & Omissions	While a final communication contains a significant error or omission, the chief audit executive communicates the corrected					

		information to all parties who received the original communication.					
9.4	Conformance with Standards	Engagements are conducted in conformance with the International Standards of Internal Auditing and it supported by the results of the quality assurance and improvement programs.					
9.5	Disclosure of Non- Conform	When non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts					
9.6	Disseminating Results	The chief audit executive review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated.					
10	J. Statements regarding monitoring progress						
10.1	Establishing Follow up Process	The chief audit executive establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.					
III. Code of Ethics							
Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.						

11.2	Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.					
11.3	Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.					
11.4	Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.					