

COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE



***Factors that Identify the Effectiveness of Internal
Audit in Oromia Special Zone Surrounding Finfinne
Administration Finance and Economic Development
Offices, Ethiopia***

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January, 2016
Addis Ababa, Ethiopia

***Factors that Identify the Effectiveness of Internal Audit in Oromia
Special Zone Surrounding Finfinne Administration Finance and
Economic Development Offices, Ethiopia***

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A Research Project paper Submitted to the Department of Accounting and
Finance College of Business and Economics

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DECLARATION

I hereby declare that this work entitled “*Factors that Identify the Effectiveness of Internal Audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Offices, Ethiopia*” is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

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This is to certify that the Research Project Paper prepared By Hawa Aliyi ,entitled *Factors that Identify the Effectiveness of Internal Audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Offices, Ethiopia* is submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Auditing complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Acronyms

FED	Finance and Economic Development
IA	Internal Auditors
ZFED	Zonal finance and Economic Development
WFED	Woredas finance and Economic Development
MFED	Municipalities Finance and Economic Development
OFED	Office of Finance and Economic Development
IIA	Institute of internal auditors
OAG	Office of the Audit General
MS	Management Support
OIN	Organizational Independence
ACIAS	Adequate and Competent Internal Audit Staff
IAE	Internal Audit Effectiveness
SPSS	Statistical Package for Social Science
SAP	Statement on Auditing Practice
MoFED	Ministry of Finance and Economic Development
IAF	Internal Audit Function
IIA	Institute of Internal Auditors

Abstract

The establishment of IA function is important as an essential internal assurance mechanism in public financial controls and as a tool for monitoring and evaluating financial management activities in private, government agencies and other sectors. The general objective of the study is to investigate factors that affect the effectiveness of internal audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office, Ethiopia. A cross-sectional design is employed for a data collection and analysis purpose. The sample was selected by purposive sampling selection techniques. Findings indicate that the four factors such as: independence, management support, competence and organization setting do have an impact on the effectiveness of internal audit. Thus the following recommendation was made: the Finance and Economic Development Offices found in the study areas, other concerned government body and stake holders should work to make effective independence/objective, the management support, the competence, and the organizational setting of internal audit to help them to perform their professional obligations and duties

Keywords: *Internal Audit, competence, organizational setting, independence, management Support, internal audit effectiveness.*

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Chapter One

1.Introduction

1.1. Background of the Study

A country that is administered in a democratic policy needs to be accountable in its use of public money and in providing effective, efficient and economical (3e"s) service delivery. To achieve those government objectives, applying internal audit function were the major mechanism for controlling and using of all scarce resources available in the corporate organization. Ever more larger and complex systems require greater competitiveness, thus internal audit has had to become ever more professional (Cecilia Nordin Van Gansberghe, 2003).

When effectively functioned, internal audit (IA) play an important role in monitoring and evaluating financial management activities in government sectors, thereby helping an organization achieve its objectives. In addition, it will assist government organizations to achieve accountability and integrity, improve the implementation of government programs and develop confidence among citizens and stakeholders as well as to cater any risk of mismanagement of public fund (Baharu-din et al, 2004). Organizations with effective IA activities are better able to identify business risks, take appropriate corrective action, and ultimately support continuous improvement. However, when internal auditing is poorly functioned, its ineffectiveness leads to increased non-value-added costs, poorly executed auditing systems, weak management operations, and eventual, company"s quality management system breakdown. Addressing factors that affect the effectiveness of IA greatly help in locating where the problem is and thereby save the organization from such breakdown (Baharu-din et al, 2004).

This paper aims to identify the factors that affect the effectiveness of IA in the study area. Mostly, the efficiency and effectiveness of the management operations in public sector are ensured by the effectiveness of its employees. Competency affects the ability of the auditors to

perform the systematic and discipline auditing, which plays key role in improving IA effectiveness. An effective government audit activity needs organizational independence and objectivity. The management support with resources and commitment to implement the internal audit recommendations is also essential in attaining audit effectiveness (Mihret & Yismaw, 2007).

IA is independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Audit's, 2001). This is clearly indicated that how IA is importance and contribute a lot in the organizations.

1.2. Statement of the Problem

High quality financial management will lead to the success of government programs and activities. Therefore, to promote quality of financial management the government has established the IA unit in many government departments.

In Ethiopian internal audit was established by considering the virtue of issuance of Federal Treasury circular no 9/2004. This circular indicates that the provision of the establishment of IA unit and governing the tasks and responsibilities of internal auditing in the public sector and as an internal control mechanism in government agencies to look into the financial management integrity and value for money expenditure to the government program and activities.

Thus, mismanagement of in the process of spending public money has been highlighted by the Auditor General (AG) in the annual report (Buang 2008). Some of these weaknesses and mismanagement involve serious violation of established financial management guidelines and procedures such as poor planning of procurement, equipment supplied, work done and services rendered not in accordance with the original specification, cost overrun due to delays in project completion, improper payment made for equipment not supplied, work not done and services

not rendered, equipment and good procured at a much higher cost than market value, procurement not done according to established regulations.

The role of IA unit is to identify that internal control is in place by reviewing policies and practices in the organization in order to avoid loss of financial resources, noncompliance and also to provide reasonable assurance that public money has been spent in an efficient and effective manner. Based on the government emphasize on IA function, audit services can no longer move out of their customary ways of thinking and common work. Audit services also can help organization for the success of better financial management in public service by playing the effective and efficient roles to promote better governance in managing public money.

Hence, some literatures argued that an internal audit setting influence internal audit effectiveness. It has also maintained that effective internal audit could contribute to accomplishment of organizational objectives. In addition to this, some studies suggests the presence of gap in the literature, i.e., little prior research has extensively identified the influence of context factors on internal audit effectiveness and the possible interplay of these factors. Moreover, they also suggests that the possible contribution of effective internal audit to the accomplishment of organizational objectives. However, it provides little theoretical foundation for the study of this contribution and the contribution has not been empirically identified as yet; measures and theoretical bases of the various concepts related to internal audit effectiveness, its antecedents, and IA,,s contribution to organizational performance were neither sufficiently clear nor consistent.

The internal audit literature tends to consider internal audit effectiveness as one-dimensional construction. This approach fails to properly capture the multi-dimensional nature of IA effectiveness. Furthermore, the interrelationships among the different dimensions of IA effectiveness cannot be understood if IA effectiveness is conceptualized as a one-dimensional construction, especially when it is treated as a dependent variable; and the limited literature to date largely focused on private sector companies in developed economies. As a result, understanding of the global configuration of the IA profession appears incomplete.

Thus, studies to identify internal audit from broader theoretical perspectives in diverse empirical settings become necessary. This is because the profession is getting global in orientation and the internal audit function is playing an increasingly essential role in the commercial world and the public sector alike (Showmen, 2014). To that end, this review has attempted to arrive at a theoretical foundation for the study of antecedents and organizational performance implications of internal audit effectiveness.

Taking these considerations into account, this study tried to identify the factors that affect the effectiveness of internal audit practice in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Office. The basic reason is many studies determinant factors that affect the IA effectiveness, however, this study basically aimed to identify the explicit factors, from the listed literature findings, which may influence the study areas. Factors such as independence/objectivity of internal auditors, competency of the auditors, organizational setting and top management support are expected to affect the effective functioning of IA.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of this study was to identify the factors that affect the effectiveness of internal audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development, Ethiopia.

1.3.2. Specific Objectives

The specific objectives of the study were listed as follows:

- To identify the effect of independence of internal audit department practice at Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development.
- To identify the effect of Competence of internal audit departments at Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office.

- To identify the effect of work setting of internal audit at Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office.
- To identify the effect of top management support to the role of internal audit at Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office.

1.4. Significance of the Study

Since the 2008 financial crisis, internal audit are more than ever seen as a credible business partner to identify control weaknesses that may undermine business drivers or breach regulatory requirements. The regulatory environment is becoming more demanding of boards and their audit committees who need independent assurance that they can rely on internal audit. The need for the internal audit profession to be recognized as essential to the success of an organization has been reflected by the Chartered Institute of Internal Auditors (CIIA) in their strategic vision and recommendations on effective internal audit in the financial services sector, published in July 2013 (Peters, 2013).

The study is likely to provide valuable information to the public bodies and academicians about the extent identified factures which highly influence the effectiveness of internal audit in the study areas; i.e., it is expected to identify the major factors that affect the effectiveness of internal audit and sustainable transparency and accountability by giving reasonable assurance that public money has been spent in an efficient and effective manner. It also aims to find out the integration of success factors for the effectiveness of internal audit. Further, this study is initiated to generate and add some information to the existing knowledge of the relevance of internal audit that have contributions for clear understanding of the effect of effective internal audit. The findings of this research would be provide multipurpose information to different users, including public sectors, government, policy planners, academicians and the public at large and it could use top management and development policy makers.

1.5.Scope and limitation of the study

1.5.1. Scope of the study

Due to the time and cost constraints, the scope of this study is limited to six municipalities and one zonal head office of Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Department offices.

1.5.2.Limitation of the Study

In spite of the researcher's efforts to gather the necessary information as objective as possible, the analysis of this study was based on the opinion of respondents, so the respondent may not cooperate well to fill and gave all the necessary data. This may in turn limit the ability to make broader generalization from the study undergone.

1.6.Organization of the Paper

This study was organized into five chapters; chapter one presents introduction of the study, the literature review part of the study is presented in chapter two, chapter three the Research methodology, chapter four data analysis and presentation and finally Chapter five deals about conclusion and recommendations.

Chapter Two

2. Literature Review

2.1. Theoretical Review

2.1.1. Internal Audit and Related Literature

Audit refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 century. But, we know that some type of auditing existed long before 1494 when Luca Pacioli published his principles of double-entry bookkeeping system in Venice (MoFED, 2004)

Auditing is originally a financial management concerned with assessing practice for the internal financial status of the organization and the evaluations of the financial performance of the organization. After the revolution and beginning the 20th century the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditor's Report (Manal, 1999). Since then, the auditing practices have evolved over the years and develop into the broader aspects. It also provides feedback on organization financial information and reporting. It also becomes a tool for an analysis of any fraudulent activity, potential and actual within the organization. In a generic sense auditing involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public.

It was also an independent appraisal function established within an organization to identify and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: an independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

According to this definition the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization. Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).

The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

On the other hand, internal audit is a critical appraisal of functioning of various operations of an enterprise including the functioning of the system of internal check. Exceptions from normal functioning of internal check system are exposed in internal audit. Accuracy, completeness, reliability and timeliness of accounting information are tested and reported for remedial action. Non-accounting areas with the operational side of enterprise are critically studied, analyzed and weakness of the system or practice with inefficiency, wastage and frauds are brought to the notice of the management. Suggestions for increasing the effectiveness of the system, for improving the productivity and profitability of business practices are offered. Internal audit is the independent appraisal of activity within an organization for the review of accounting, financial and other business practices as a protective and constructive arm of

management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control (B.N. Tandon, 2010).

Professor Walter B. Meigs of America says internal auditing consists of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees. Internal audit implies an audit of the accounts by the employees of the business. The work is done by a separate set of staff that may or may not have professional audit qualifications. The function of an internal auditor is practically the same as that of an auditor. In addition to that an internal audit has to see that there is no wastage and the business is carried on efficiently and effectively. Again if an internal auditor finds that as a result of the inefficiency of the management, the management has suffered a loss, it is his duty to report the fact. The IA has to be reported to the management whether the policy and plans of activities prescribed by them have been implemented, whether the internal controls and checks established were adequate, whether the actual results obtained were varying from the estimates, etc. to enable the management to achieve the objective of the company in the planned manner (Shewamene, 2014).

2.1.2.Types of Audits Performed by Internal Auditors

A variety of audits are performed in the review of campus programs and resources. These audits include:

Operations Audits: These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization's mission and objectives.

Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources.

Compliance Audits: These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations.

Information Systems Audits: These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities.

Internal Control Reviews: These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting.

2.1.3. Internal Audit Effectiveness

A number of researches had been done in the area of the IA in private and public sector. The fact that effective IA can contribute to the significant impact to the quality of management has raised the interest for researchers to explore into this matter. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large. Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. The IA findings and recommendations are clearly crucial to the management of public office to follow through and immediately rectify the problems in the organization. Mihret and Yismaw, (2007) suggested public sector organizations are required to have an internal audit function to support effective management in managing public funds. So many findings from the research done linked the effectiveness of the internal auditor contribution to effective management and internal control of the public sectors. According to Okafor Ibadin (2009), the internal audit exercises a critical role in improving corporate governance in organizations. In terms of accountability and management relationship, Saren and De Beelde (2006) found that Internal Auditors are playing a pioneering role in the creation of a higher level of risk and control awareness in managing risk in the management system. Internal audit is a „comfort provider“ to the Audit Committee especially in its assurance role and its involvement in improving internal control.

Van Gansberghe (2005) explained that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services. Based on the results of a consultative forum that focused on improving public sector internal audit, Effective internal audit undertakes an independent evaluation of financial and operating information, of systems and procedures, to provide useful recommendations for improvements as necessary. Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage. Spraakman (1997) applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations.

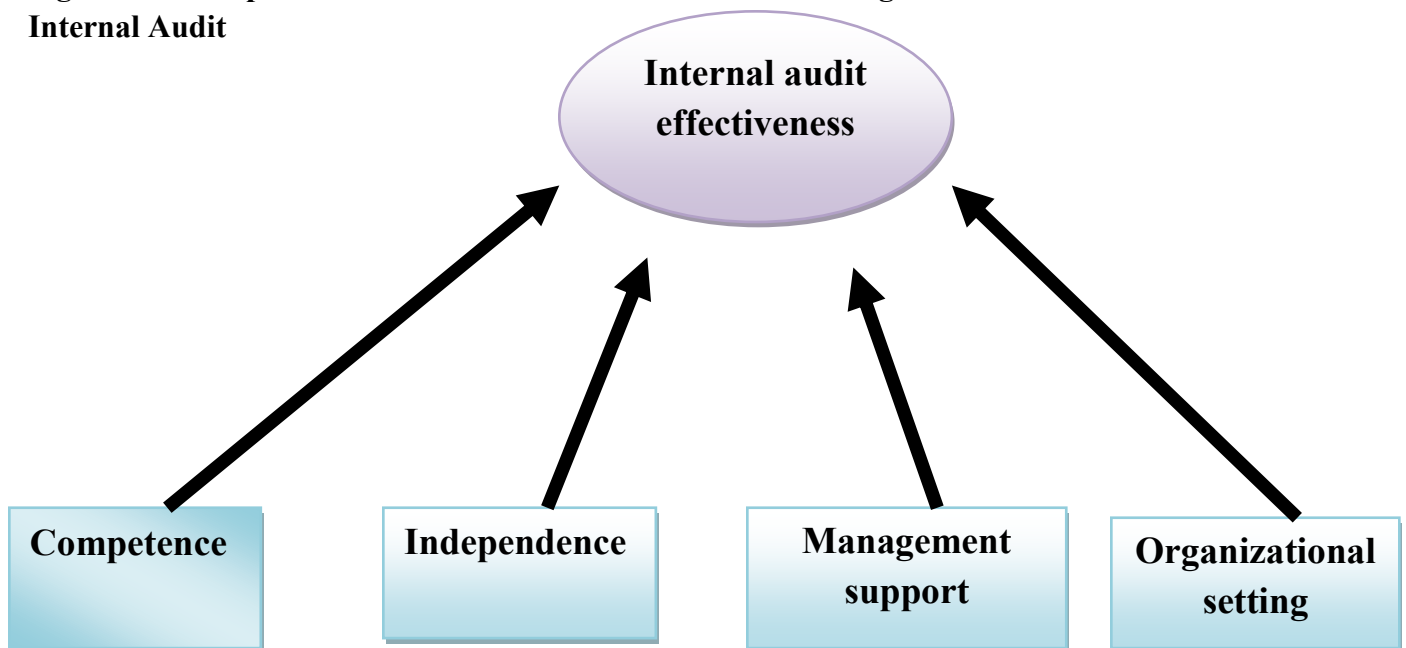
Four potential factors that affect IA effectiveness are identified: the competence of internal audit staffs, the independence of internal, management support, and organizational setting.

2.2. Internal Audit Effectiveness frame work

Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors (Dittenhofer, 2001). That is, effectiveness in terms of achieving the IA goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit (IA):

- ❖ Undertakes an independent evaluation of financial and operating systems and procedures;
- ❖ Contributes to the achievement of organizational goals;
- ❖ Needs management's commitment to implement recommendations;
- ❖ Provides useful recommendations for improvements as necessary
- ❖ Affected negatively by lack of attention from management which in turn adversely affects the auditee attributes; and
- ❖ Management support is a natural quid pro quo for effective internal audit.

Figure 2: Conceptual frame work for the Factors that Affecting the Effectiveness of Internal Audit



Adopted by researcher

While; Sarens and Beelde (2006) point out the contribution and roles of internal audit in organizations or corporate governance from the senior management's expectation point of view. Senior management expects internal audit:

- To compensate for management's loss of control resulting from increased organizational complexity,
- To be the safeguard of corporate culture through personal contacts with people in the field,
- To be a supportive functions in the monitoring and improvement of the risk management and internal control system,
- To be laid a training ground for future managers, and
- To collaborate actively with the external auditors to increase total audit coverage.

This indicates that internal audit and management is the interdependent unit that should be collaborated to achieve organizational goals. While doing their activities, there is some value that internal audit unit seeks from management (such as management support, commitment, expectation, etc.) and that the management wants from the internal audit like adding value in

decision making by providing sufficient information and reducing information asymmetry, monitoring and improvement of the risk management and internal control system.

2.3. Empirical Review

The study conducted by Mihret et al., (2007) investigated that internal audit service of a large public sector higher educational institution, to identify factors influencing internal audit effectiveness by considering four interrelated factors: internal audit quality; management support; the organizational setting; and attributes of the auditees. They investigated as the findings of the study the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness. The organizational status and internal organization of the audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization. The scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. Management's commitment in providing greater attention to internal audit recommendations and staffing the office with well-qualified employees deserves attention in this study. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes. The study has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting. The limitation of this study is readily apparent. As in all case studies, the generalizability of the findings and the conclusions drawn is limited, although the study does provide evidence of the problems internal auditors face in providing an effective service to management. Further, research could be welcome to fully understand the level of internal audit effectiveness in the Ethiopian public sector *vis-à-vis* its private sector,

with a view to highlighting differences, if any, and conclusively defining the variables affecting internal audit effectiveness in Ethiopia.

As the main aim of this research is to assess the factor that affect the effectiveness of internal audit in the public business sector enterprise, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia was dated in the 1940s the time also the United States and most European countries are adapted. The effectiveness of internal audit in the public sector is challenged because of the factors that hinder the development of IA in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit in the public business enterprise sector; such as the perceptions of the management, management support, organizational independence of internal auditors, adequate competent of IA staff and the presence of IA charter reviewed from different researchers are included in these literature.

2.3.1. Factors that Affect Effectiveness of Internal Audit

2.3.1.1. Competency of Internal Audit staffs

Auditors' competency contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audit. IA can effectively carry out their duty in the public sector if there are enough IA personnel with required competencies. This competence intern depends on educational level, professional experience, continuous training, and the effort of the staffs for continuing professional development (Mihret and Yismaw, 2007 and Unegbu and Kida, 2011).

2.3.1.2. Independence and Objectivity of Internal Auditors

The other factor that may affect the effective government audit activities is the need of organizational independence and objectivity which can allow the audit activity to conduct work without interference by any party. The independence and objectivity of internal auditing is with respect to both assurance services and consulting for the organization. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity

and no significant quality compromises are made during rendering the audit service (Altamonte Springs, FL. IIA, 1999a). In fact, the audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so (Institute of Internal Auditors, 2001). This is very crucial element in conducting audit because the auditors can access to any document relating to the audit work without favor and fear. This will make the auditors provide the objective report and reliable professional judgment on the auditing work to achieve the mandate given to them with integrity. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or as an employee (Caplan and Kirschenheiter, 1999). In certain extent there is a confusion of the role of IA as internal auditors are part of the management team and at the same time to independently evaluate management's effectiveness and efficiency (Saren and De Beelde, 2006).

2.3.1.3. Management Support to the Roles of IA

The support and commitment of management also have certain impact on the effective functioning of IA. The success of IA function will depend on the strength of management's support for the auditing process. They have to accept the fact that the IA process is just as critical and important activity as any other process within the organization. Some study found that without management approval, support, and encouragement, the IA process is likely to face failure. Ali, et.al (2007) on their study about IA function in State and Local Government appears to be directly related to the management style of organization heads and their links, relationships and position in the social contract.

Some Internal Audit function appears to be doing well, the determining factors appear to be the attitude and leadership qualities of the head of an organization and audit reports that are ignored by everyone. Mihret and Yismaw (2007) on their study also found that IA recommendations are need enough attention. Their study also concluded that management supports to internal audit as determinant of internal audit effectiveness.

2.3.1.4. Organizational Setting

Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditees. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve. The auditee attributes relate to the capability of the auditee to meet its intended objectives. Auditee attributes with implications on audit effectiveness include the auditees' proficiency to efficiently and effectively meet organizational sub-goals; their attitude towards internal audit; and the level of cooperation provided to the auditor (Mihret and Yismew, 2007).

2.4. Gaps in the literature and conclusion

This section deals about how internal audit setting influence internal audit effectiveness. It has also maintained that effective internal audit could contribute to accomplishment of organizational objectives. The part identified and according to the following gaps in the literature:

- The research which was conducted before has extensively examined the determinant factors that affect internal audit effectiveness. The produce of this study little bit changed the previous trend and identify the source factor which considering the availability of literature source in this area;
- The literature suggests the possible factors which can contribute for the effectiveness of internal audit to the accomplishment of organizational objectives. It is obvious that provides little theoretical foundation for the study of this contribution and the significance has not been empirically examined as yet;
- Measures and theoretical bases of the various concepts related to internal audit effectiveness, antecedents and IA contribution to organizational performance were neither sufficiently clear nor consistent especially in the study areas;
- The internal audit literature tends to consider internal audit effectiveness as one dimensional construct. The conceptual frame work of this study also showed this fact in a clear manor. This approach fails to properly capture

the multi-dimensional nature of IA effectiveness. Indeed, the interrelationships among the different dimensions of IA effectiveness cannot be understood.

- The limited up to date literature largely focused on governmental organizations in developed economies. As a result, understanding of the global configuration of the IA profession appears incomplete.

2.5. Research Questions

This study therefore, intended to investigate **the factors that affect internal audit effectiveness** in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office. More specifically, this study aims to address the following research questions which were modified from related different literature reviews:

- I. What effect does Independence of internal auditor has on internal audit effectiveness?
- II. To what extent competent of internal auditors affects audit effectiveness?
- III. What role does organizational setting play on internal auditor effectiveness?
- IV. What kinds of support given by top management for internal audit department effectiveness?

Chapter Three

3. Research Methodology

3.1. Research Design

In order to identify the effectiveness of IA behaviors, case study, experimental or longitudinal design are not suitable but cross-sectional design capable to do so. A cross-sectional design is employed for a data collected and analyzed more than one case at a single time. The IA effectiveness is identified by using the collected quantitative or quantifiable data. Therefore, this feature is relevant to this study. Because, the data in this study has not been collected in stages but carried out in a single time period and finally there is a relative large sample size in the study.

3.2. Research Approach

There are two types of research approaches such as deduction and the induction approach. The study used deduction approach because the conceptual framework is built based on the previous studies. A deduction approach adopts current theories and concepts to justify research relationships. Deductive approach is also helpful for identifying the causal relationships among factors by collecting data in most cases using a quantitative method. It also helps in generalizing from the chosen sample to the whole population.

3.3. Research Method

There are three common approaches to conduct a research project in the area of business and social sciences namely: quantitative, qualitative and mixed research approaches. Quantitative method is an objective and systematic process in which pieces of numerical data are used to obtain information about the world and which are analyzed by using mathematical methods. It is also used to test a theory by examining the factors based on the previous studies, identifying the research relationships and obtaining the findings. It can generalize research findings when the study collects data from a random sample which represents its population and it has sufficient sample size. Quantitative method can also achieve greater objectivity and more accurate results if we comparing with the other methods. It depends on a few variables and it

follows many tools in order to test the validity and reliability of the data. Therefore, in order to achieve the objectives of this study and thereby to give answer for its problems, quantitative research approach was used by the researcher.

3.4. Research Strategies

Research strategies help researchers to provide data that can answer the research questions or achieve the research objectives. There are many types of research strategies, depending on the types of data that the researcher want to collect and analyze, such as experiment, survey, case study, action research and grounded theory. However, this study employed survey strategy because the data collected from as such kinds of strategy can be used to suggest a possible explanation of the relationship between the study variables. Furthermore, the survey is the most relevant to the study which follows deduction approach and quantitative method.

3.5. Data Sources and Collection Method

3.5.1. Sources of Data

Primarily data source was employed in this research. The survey questionnaires helped us to collect a primary source of data. That helps the researcher to have more insights about factors that affecting the effectiveness of IA at the study area.

3.5.2. Data Collection Technique

From the strategies of inquiry associated with quantitative methods, survey method was adopted in this study. It enables the researcher to test objective theories in the real world by constructing the cause and effect relationship between variables and promote the replication of research. In this study, the approach allowed the researcher to identify factors that affect the effectiveness of IA in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development office.

A questionnaire was considered as a key tool in collecting data and it is the most widely used tool in social research such as this study. It contains standardized questions whereby all respondents may understand these questions in the same way. Data from the concerned study areas were collected using self-administered questionnaires which were hand-delivered and hand-collected.

3.5.3. Research Instruments

The study incorporates only primary data sources. It had been collected and analyzed using triangulation (cross checking) data collection techniques from different data sources. First, the primary data had been collected from internal audit staff, finance, procurement and property administrative staff and planning, budgeting, monitoring and evaluation staff and top management members at selected Finance and Economic Development offices using structured questionnaires. Moreover, the data had been also gathered from Office heads and Internal Audit Process Owners of the respective offices at the study area by using structured interview question. A pilot test was conducted before actual data collection using small representative sample to find out whether the questions are measuring what had intended to be measured. Clarity of wordings in view of respondents' level of understanding needs to be checked on the pre-test to avoid research bias.

3.6. Subject of the Study

3.6.1. Source of Study Population

The source of populations were the internal audit staff, finance, procurement and property administrative staff and planning, budgeting, monitoring and evaluation staff, top management members and office heads and IA process owners of Finance and Economic Development offices in Oromia Special Zone Surrounding Finfinne Administration.

3.6.2. Target Population

The target population who participated in this research was: the current total number of 1 Weredas and 5 municipalities; totally 6, of Finance and Economic Developments offices.

3.6.3. Study Units

The officials who were selected in the given positions from the finance and economic development offices that full file the inclusion criteria.

3.6.4.Sampling

The respondents were purposively selecting the officials because they are responsible for strategic decisions at the corporate level and to contribute to the quality of financial statements, and to review the report at its standards.

3.6.5.Sampling Frame

The sampling frame of this study was list of finance and economics officials who were worked in the allocation position in Oromia Special Zone Surrounding Finfinne Administration.

3.6.6.Sample size determination

The sample population is from the current total number of 7 werdas and 9 municipalities; totally 16, of Finance and Economic Developments offices. From this population 5 municipalities and 1 zonal in sum 6 Finance and Economic Developments are selected randomly. The selected respondent of the population are as follows:

Table 1: The sample size selected distributed and collected populations

s/n	Name of selected Municipalities	Selected population from each	Total distributed	Collected
1	Burayu Municipality of OFED	<ul style="list-style-type: none"> • OFED Head • Finance Director • planning • Finance officer • Internal Audit Head • Senior IA 	6	6
	<ul style="list-style-type: none"> • Procurement and Property Administration Process Owner, • Planning and Budgeting Work Process Owner and • Internal Audit Work Process Owner and senior auditor of IA 			
2	Sebeta Municipality of OFED	6x1	6	4
3	Gelan Municipality of OFED	6x1	6	6
4	LegaTafo Municipality of OFED	6x1	6	6
5	Sululta Municipality of OFED	6x1	6	5
6	Zonal Finance and Economic Development Office	6x1	6	6
Total population			36	33

NB: OFED_ Office of Finance and Economic Development

As shown in table 1 above, based on the identified population number, was applied to identify the level taking into consideration their higher budget allocation, resources mobilization, investment activities and risk area relative to other sectors. Similarly, Finance and Economic

Development Offices were assumed to be selected by using simple random sampling techniques.

Finally, from the identified sectors of economic and finance development offices of five municipality level six staff members from each departments of finance and from one zonal total (6x6= 36), was selected using by purposive sampling of their function weights for all audit staff members at identified process. Therefore, from the distributed questionnaires 33 were collected rating to 91.67% respondents.

3.7.Methods of Data analysis

After the data was collected, the following activities on data processing have been carried out. The raw data was converted into suitable form for analysis and interpretation. This was achieved through sequences of activities including editing, coding, entry, and tabulation. The objectives were to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Finally, an analysis progress was developed using Statistical Package for Social Science (SPSS).

Mean, standard deviation, non-parametric test of chi-square and descriptive statistics was used to analysis and find out the results. Moreover, the descriptive method of data analysis was important to analysis the demography of the sample in population at the study area in terms of age, educational background, work experience etc. of the respondents and overall population as well as the descriptive methods of statistical analysis like percentage, measures of central tendency and measures of dispersion were used to analysis the data.

2.1.3.8. The Expected Factors that can affect IA

There were various numbers of explanatory variables so far identified and have strong bond with the effectiveness of internal audit in the study area. For the purpose of detail investigation and measurability the four explanatory variables are identified and discussed below.

Competency of internal audit staffs (CIA): Competency can be related to the ability of an individual to perform a job or task properly based on the educational level, professional experience, necessary continuous training on time and the effort of the staffs for continuing professional development. Auditors' competency determines the effective auditing in the organization. Thus, it deals with internal auditors' competency using four explanatory variables via; educational levels of internal auditors, work experience, access to continuous training and efforts of individual self-development. It is also measured on five point Likert scale by assigning 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree. Hence, this variable is operationalized as the more internal auditors are competent enough in terms of the four explanatory variables, more effective in internal audits and vice versa.

Independence and objectivity of internal auditors (IIA): The organizational independence and objectivity allow the audit activity to conduct work without interference by any party for the audit task. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. This is very crucial element in conducting audit because the auditors can access to any document relating to the audit work without favor and fear. It deals with internal auditor's independence and objectivity using three explanatory variables such as; access to necessary and sufficient documents timely when required to conduct the audits, whether internal auditors are members of top management members or not, and whether the auditors have confidence to independently evaluate management's effectiveness and efficiency. Hence, it is hypothesized that there is direct relationship between internal auditor's independence (autonomous) and effectiveness of internal audits.

Management support (MGT): The support and commitment of management also have certain impact to make sure IA functioning effectively. The success of IA function will depend on the strength of management's support for the auditing process. They have to accept the fact that the IA process is just as critical and important activity as any other process within the organization. The explanatory variables for management support includes: relationship

between top management in the organization, management supports and encourage the audit staff, supply of necessary facilities and having a regular time to hear audit report and translate into practices. It is also measured on five point Likert scale .Therefore, it is assumed that there is direct correlation between the management or leaders support and effectiveness of internal audits in an organization.

Organizational Setting (OS); Organizational setting described in terms of the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditees. It provides the context in which internal audit operates. Thus, organizational setting has positive influence on the level of effectiveness of internal audit.

Chapter Four

4.Data Analysis and Interpretation

The questionnaire which was prepared with Likert scale style distributed to 33 respondent of various department who has a position of different governmental office selected workers. Those participants are Office of Finance and Economic Development Head, finance director, planning, finance officer, internal audit head and senior internal auditor.

4.1.Demographic Characteristics of Respondent

As the table below depict that 21(63.60%) of the respondents were male while the remaining 12(36.40%) of the respondents were female. From this we deduced that the majority of respondents were male.

Table 2: Sex of respondent

Item	Sex category	Frequency	Percent
	Male	21	63.60
	Female	12	36.40
Total		33	100

Source: field survey

As the table below depict that 21(63.60%) of the respondents were male while the remaining 12(36.40%) of the respondents were female. From this we deduced that the majority of respondents were male.

Table 3: Age (in year) of respondents

Item	Age Category	Frequency	Percent
	20-29	9	27.30
	30-39	12	36.40
	40-49	6	18.20
	50-59	6	18.20
Total		33	100

Table 4 illustrated that 15(45.45%) of the participants of the study units were came from accounting field of study, 13(39.39%) economics field of the study and the remaining 5(15.15%) respondent came from other business related fields. From this information, it is possible to conclude that the majority of the participants of the study were came from accounting field of stream.

Table 4: Field of the study of respondents

Item	Field of the study	Frequency	Percent
	Accounting	15	45.45
	Economics	13	39.39
	Others (Business education)	5	15.15

Total	33	100
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Source: Field survey

Relatively the researcher gathered the information about the participants' level of education. As a result 27 (81.80%) of the participants have got their Bachelor degree, 6(18.20) of the participant have got their master's degree. From this we can conclude that the majority of the participants of the study have got their Bachelor degree.

Table 4.4 Level of Education of Respondents

Item	Field of the study	Frequency	Percent
Level of education	Bachelor Degree	27	81.80
	Master's Degree	6	18.20
Total		33	100

Source: Field survey

The below result also revealed that the majority of the participants, 14(42.43), have got a work experience of more than 15 years of age. Contrarily, few of the participants, 8 (24.24%), worked from 6 to 10 years of age. The reset 11(33.33%) participants have got the experience of 11 to 15 years. Thus, it is possible to conclude that the majority of respondents were having good work experience for the fields of stream.

Table 5: work experience of respondents

Item	Years	Frequency	Percent
Work Experience	6-10	8	24.24
	11-15	11	33.33
	More than 15 years	14	42.43
Total		33	100

Source: Field survey

4.2. Independence / Objectivity of internal Audit

Under this topic, there are 9 hypothetical statements designed to test the independence/objective of internal audit. Chi-square statistics is the best tool to check independency, variability and homogeneity. So, the study uses this test statistics for the approval of the association or identifying of factor/s.

From a result shown in the table below, primarily, the researcher interested to test whether the internal audit staff is sufficiently independent to perform their professional obligations and duties or not. As a result, the p-value, 0.023, is less than the usual rejection statistical significant level 0.05. Thus, we accept the null hypothesis and have enough evidence to conclude that the internal audit staffs are not sufficiently independent to perform their professional obligations and duties. The second hypothetical statement which was included in the study was that the head of Internal Audit reports to a level within the organization that allows the internal audit to full fill its responsibilities or not. Thus, probabilistic value is 0.000 which is less than the usual statistical threshold value 0.05. From this it is possible to conclude that the head of internal auditor do not reports to a level within the organization that allows the internal audit to full fill its responsibilities.

The third hypothetical statement which was included in the questionnaires was that whether the head of internal audit has direct contact to the board (top level management) or not. As a result, the calculated significance value 0.000 was less than the usual statistical threshold value 0.05. Therefore, we can conclude that the head of internal audit has no direct contact to the top level management.

The fourth hypothetical statement designed to describe independence of internal audit was that the internal audit department has direct contact with senior management other than the finance director or not. Consequently, the calculated statistical significant value is 0.148 which is greater than the usual statistical rejection threshold value 0.05. From this it is possible to conclude that the internal audit department has direct contact with senior management other than the finance director.

The hypothetical statement which was included under the below table describe the independence /objectivity of internal audit, i.e., it hypothesized that whether conflict of interest is rarely present in the work of internal auditors or not. As a result, the calculated significant value is 0.006 which is less than the usual statistical rejection threshold value 0.05. This implies that there was no rarely conflict of interest present in the work of internal auditors.

The next hypothetical statement which was included under this study is either the Internal Audit staffs have free access to all department and employees in the organization or not. Thus, the result revealed that off course the IA staffs have free access to all the departments. The hypothetical statement which is included under table 6 is “conflict of interest is rarely present in the work of internal auditors”. As a result the calculated statistical significance value is 0.006 which is less than the usual statistical threshold value 0.05. This implies that there was no conflict of interest is rarely present in the work of internal auditors.

The next hypothetical statement which is included under this study is “Internal Audit staff has free access to all department and employees in the organization.” So, the calculated significant chi-square statistics 0.023 which is less than the usual statistical rejection value 0.05. This implies that internal Audit staffs have no free access to all department and employees in the organization.

The researcher also wants to check whether the board of directors (top management) approves the appointment and replacement of the head of internal auditing or not. As a result, the calculated significance value (p) is 0.000 in which is less than the usual rejection threshold value of 0.05. This implies that the board of directors (the top management) not approves the appointment and replacement of the head of internal Auditing.

Finally, the hypothetical statement which is given to describe in this study is, “Internal Audit staffs are not requested to perform non audit functions.” As a result, the calculated statistical significance value (P-value) 0.020 is less than the usual statistical significance value 0.05.

From this it is possible to infer that internal Audit staffs are requested to perform non- audit functions

Table 6: Independence/ objectivity of internal audit

No	Hypothetical Statement	Chi- Square	Degree of freedom	Asyp.sig (P-value)
1	Internal audit staff is not sufficiently independent to perform their professional obligations and duties.	9.545	3	.023*
2	The head of internal audit reports to a level within the organization that allows the internal audit to full file its responsibilities.	15.273	2	.000*
3	The head of internal audit has not direct contact to the board (to top level management)	22.091	1	.000*
4	The internal audit department has not direct contact with senior management other than the finance director.	3.818	2	.148
5	Conflict of interest is not rarely present in the work of internal auditors.	10.364	2	.006*
6	Internal auditors rarely face interference by management while they conduct their work.	22.091	1	.000*
7	Internal audit staffs have not free access to all departments and employees in the organization.	9.545	3	.023*
8	The board of directors (the top management) approves the appointment and replacement of the head of internal auditing.	34.909	2	.000*
9	Internal audit staffs are not requested to perform non-audit functions.	7.800	2	.020*

* Significant with 0.05 level of significant

Source: Field survey

4.3.Management Support of internal Audit

Table 7 illustrate about the management support of internal audit. To identify the significant factor the researcher was hypothesized different hypotheses. The first hypothesis stated that whether the senior management supports internal audit to perform its duties and responsibilities or not. As a result, the calculated statistical significance value is 0.000 which is less than the statistical significance value 0.05. Therefore, we can deduce that the senior managements do not support internal audit to perform its duties and responsibilities.

The result also indicated that senior managers never involved in the IA plane. Because, under the considered statistical significance valve, 0.023, the threshold value 0.05 is lesser. So, we reject the null hypotheses which stated that senior management is involved in the internal audit plan.

The result also recognized that internal audit provides senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made. Since, the average Likert scaled value of that specific variable, 2.00 (SD±1.095), is lower than the median value, 3, with higher standard deviation. In that regard the calculated statistical significance value supposed to escalating, i.e., the probability of insignificance decline. So, we accept the null hypothesis stated in the above result.

The study reached in a conclusion that the response of internal audit reports by the senior management is not reasonable. Because, the mean Likert scaled value of that specific variable (3.090) is higher than that of the median reference point with a minimum standard deprivation (0.804). In that regard the chi-square statistical significance value (7.091) escalating up. So, we are supposed to reject the null hypothesis which stated that the response to internal audit reports by the senior management is reasonable.

Similarly, the study result identified that the internal audit is not valued by management and makes valuable contribution. Because, the calculated chi-square value is a bit superior (9.545); so, the p- value enforced to decline (0.023). In that reason, the usual statistical rejection value (0.05) comes to higher than that of the p-value. So, we rejected the hypothesis which stated that the Internal Audit department is valued by management and makes valuable contributions.

Table 7: Management support of Internal Audit

No	Hypothetical Statement	Mean	Standard deviation	Chi-Square	Degree of freedom	Asyp.sig (P-value)
1	Senior management supports internal audit to perform its duties and responsibilities.	3.363	.783	18.273	3	0.000*
2	Senior management is involved in the internal audit plan.	3.090	1.011	9.545	3	0.023*
3	Internal audit provides senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made.	2.000	1.095	.545	2	.761
4	The response to internal audit reports by the senior management is reasonable.	3.090	.804	7.091	2	.029*
5	The Internal Audit department is valued by management and makes valuable contributions.	3.363	.783	9.545	3	.023*

*Statistical significance test value – 0.05

4.4. Competence of Internal Audit

As the below table indicate, the first hypothetical statement is “internal Auditors possessing sufficient experience to understand the organizations system.” So, the statistical significance value associated to the data (0.013) is lesser than that of the usual statistical significance value 0.05. Therefore we can conclude that the Internal Auditors do not possess sufficient experience to understand the organizations system.

The result identified that the internal audit staffs possess knowledge and skills in a varieties of areas (beyond accounting and finance) are not necessary for the effectiveness. Against 0.05 level of confidence and 0.006 calculated significance value.

The analytical result revealed that internal Audit has not policies for training of internal Audit staff; under the consideration of calculated significance value (0.013) against the usual p-value (0.05).

Because, the mean Likert scaled value of that specific variable (3.82) is higher than that of the median reference point with a minimum standard deviation (0.727). In that regard the chi-square statistical significance value (40.09) escalating up. So, we are supposed to reject the null hypothesis which stated that the internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses).

The next hypothetical statement which is included under this study is “adequate short term training is arranged for internal auditors each year.” So, the calculated significant chi-square statistics 0.000 which is less than the usual statistical rejection value 0.05. This implies that internal adequate short term training is not arranged for internal auditors each year.

The researcher also wants to check whether there is a complete internal Audit manual to guide internal Audit work or not. As a result, the calculated significance value (p) is 0.000 in which is less than the usual rejection threshold value of 0.05. This implies that there is no a complete internal Audit manual to guide internal Audit work.

The seventh hypothetical statement which was included in the questionnaires is that whether the professional qualifications and training of internal Audit employees are high or not. As a result, the calculated significance value 0.001 was less than the usual statistical threshold value 0.05. Therefore, we can conclude that the professional qualifications and training of internal Audit employees are not high.

The eighth hypothetical statement designed to describe was that internal audit is a source of valuable data and information for the decision makers in the organization or not. Consequently, the calculated statistical significant value is 0.148 which is greater than the usual statistical rejection threshold value 0.05. From this it is possible to conclude that the internal Audit is a source of valuable data and information for the decision makers in the organization.

The result also indicated that management is not encouraging internal Audit staff to continually develop. Because, the considered statistical significance value (0.000) is lesser than the threshold value 0.05. So, we reject the null hypotheses which stated that management encouraging internal audit staff to continually develop.

The finding tried to identify whether organizations invest consistently in the training and development of internal Audit employees or not. As a result, the calculated statistical significance value is 0.000 which is less than the statistical significance value 0.05. Therefore, we deduced that an organization is not invested consistently in the training and development of Internal Audit employees.

Table 8: Competent of internal Audit

No	Hypothetical Statement	Mean	SD	Chi-Square	Degree of freedom	Asyp.sig (P-value)
1	Internal auditors possess sufficient experience to understand the organization,s systems.	2.82	1.130	8.727	2	.013*
2	The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary.	3.00	1.146	10.364	2	.006*
3	Internal audit has policies for training of internal audit staff.	3.182	1.132	8.727	2	.013*
4	Internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses).	3.82	.727	40.091	3	.000*
5	Adequate short-term training is arranged for internal auditors each year.	3.64	.994	27.000	3	.000*
6	There is a complete internal audit manual to guide internal audit work.	2.55	1.175	27.000	3	.000*
7	The professional qualifications and training of Internal Audit employees are high.	3.818	.950	13.636	2	.001*
8	Internal audit is a source of valuable data and information for the decision-	2.182	.950	3.818	2	.48

	makers in the organization.					
9	Management encouraging internal audit staff to continually develop.	2.182	.727	23.455	2	.000*
10	Organization invests consistently in the training and development of Internal Audit employees.	3.909	.678	34.909	2	.000*

**Statistical significance test value – 0.05*

4.5. Organizational Setting of internal Audit

Table 9 deals about organization setting of internal Audit. There are nine hypothetical statement designed to assess the organization setting of internal Audit.

The study reached in a conclusion that the authority of internal audit is not clearly defined. Because, the calculated chi-square statistical tests value is a bit higher (13.364) with a 1 degree of freedom; due to a large average beyond the reference median value with a minimum standard deviation. In that regard we are supposing to reject the null hypothesis which stated that the Authority of internal Audit is clearly defined.

Similarly, the study result identified that the internal audit department is not large enough to successfully carry out its duties. Because, the usual statistical rejection value (0.05) comes to higher than that of the p-value (0.000). So, reject the hypothesis which stated that the internal Audit department is large enough to successfully carry out its duties.

The hypothetical statement which was included under the below table described that internal Audit obtains sufficient budget to successfully carry out its duties. As a result, the calculated significant value is 0.003 which is less than the usual statistical rejection threshold value 0.05. This implies that the internal audit obtains not sufficient to successfully carry out its duties.

The next hypothetical statement which was included under this study is either internal Audit has policies for hiring internal Audit staff or not; under 0.05 level of significance consideration. Thus, the result revealed that, of course, internal Audit has no policies for hiring internal Audit staff.

The hypothetical statement which is included under table 9 is “Internal Audit staff has free access to all department and employees in the organization.” As a result the calculated statistical significance value is 0.023 which is less than the usual statistical threshold value 0.05. This implies that internal Audit staffs have no free access to all department and employees in the organization.

The next hypothetical statement which is included under this study is “there is a complete internal Audit to guide internal Audit work.” So, the calculated the statistical significance values 0.000 which was less than the usual statistical significance rejection value 0.05. This implies that there is no a complete internal Audit guide to internal Audit work.

The researcher also wants to check whether organizational structure provides the frame work within which the segregation of duties is determined or not. As a result, the calculated significance value (p) is 0.013 in which is less than the usual rejection threshold value of 0.05. This implies that organization structure do not provide the frame work with in which the segregation of duties is determined.

Next, the hypothetical statement which is given to describe in this study is, “information communicates effectively both up and down within your function and across to other function.” As a result, the calculated statistical significance value (P-value) 0.117 is higher than the usual statistical significance value 0.05. From this it is possible to infer that information communication effective both up and down within your function and across to other function.

The eighth hypothetical statement designed to describe the purpose of internal Audit is clearly defined or not. Consequently, the calculated statistical significant value is 0.000 which is lesser

than the usual statistical rejection threshold value 0.05. From this it is possible to conclude that the purpose of internal Audit is not clearly defined.

The study reached in a conclusion that the purpose of internal Audit in line with the standard formulate by the institute of internal Audit. Because, the mean Likert scaled value of that specific variable (2.909) is almost equivalent with the median reference point (3) with an acceptable standard deprivation (0.678). In that regard the chi-square statistical significance value (7.091) escalating up. So, we are supposed to reject the null hypothesis which stated that the purpose of internal Audit in line with standard for the professional practice formulated by the institute of internal Audit.

Table 9: Organizational Setting of Internal Audit

No	Hypothetical Statement	Mean	Standard deviation	Chi-Square	Degree of freedom	Asyp.sig (P-value)
1	The authority of internal audit is clearly defined	2.363	.783	13.364	1	.000*
2	The internal audit department is large enough to successfully carry out its duties	3.727	.626	34.909	2	.000*
3	Internal audit obtains a sufficient budget to successfully carry out its duties	3.090	1.100	13.909	3	.003*
4	Internal audit has policies for hiring internal audit staff	3.727	.876	23.455	2	.000*
5	There is a complete internal audit manual to guide internal audit work	2.545	1.00	40.091	3	.000*
6	Organizational structure provides the framework within which the segregation of duties is determined.	2.636	.652	8.727	2	.013*
7	Information communicated effectively both up and down within your function and across to	2.727	.977	2.455	1	.117

	other functions.					
8	The purpose of internal audit is clearly defined	2.181	.584	22.091	1	.000*
9	The purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors	2.909	.678	7.091	2	.029*

**Statistical significance test value – 0.05*

Chapter Five

5. Conclusions and Recommendation

5.1. Conclusion

From the previous section, the result indicated lack professional bodies, accountants, experience of the auditors in internal audit department may the cause of dealing the auditing work. As a profile elaborated the professional group was lower than none professionals. Even if the experience of the workers is a bit high, most of the participants engaged indirect stream subjects. With all these fact, it can be assumed that the effectiveness of IA in a given public sector have relatively still need improvement.

The scope of internal audit services is limited to independency. The audit staff should be independent to perform the work in a good manor; but the finding did not show this fact. The head of internal audit has no direct contact to the board rather IA department has direct contact with senior management other than the financial and economic officials. In addition the staff has not free access. There is also a great conflict of interest within their work. However, the

internal audit provides senior management with sufficient, reliable, and relevant reports about the work they perform and recommendation made. From these we deduced that the offices still tied by grate independency problem.

The study has also shown that internal audit of the studied organizations need improvement in the areas of competence. Audit effectiveness could be enhanced by ensuring skilled and trained manpower. However, as the result elaborated the internal auditors do not possess sufficient experience to understand the organization system; in addition to this, they don't possessed enough knowledge and skills for competency. Because, the staff does not have capacity building and supportive trainings; therefore, moreover, is no competency among the staffs and external auditors. In that regard the employees could not develop professional skills.

Finally, this study has revealed that the internal audit of the studied organizations needs to improve their organizational settings. As the finding elaborated the authority of internal audit is not clearly defined. In addition, the audit department is not large enough to successfully carry out its duties. The basic reason is that the offices don't have or never allocate enough budgets to add the manpower and also the internal audit has no policies for hiring internal audit staff. Moreover, organizational structures do not provide the frame work within which the segregation of duties is determined. And also, the purpose of internal audit is not clearly defined; in that regard, it is not in line with standards for professional practice formulated by the institute of internal auditors.

5.2.Recommendation

Based on the above finding (conclusion) the following recommendation was made.

- ❖ The Zone Finance and Economic Development Office, other concerned government body and stake holders should work to the make effective independence/ objective of internal Audit. To make Audit staffs sufficiently independent to perform their professional obligations and duties,
- ❖ The Zone Finance and Economic Development Office, other concerned government body and other stakeholders should work to make efficient the management support of internal audit.

- ❖ The Zone Finance and Economic Development Office, other concerned government body and other stakeholders should work to effective the competence of internal audit.
- ❖ The Zone Finance and Economic Development Office, other concerned government body and other stakeholders should work to make effective the organization setting of internal audit.

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