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ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND AUDITING

EFFECT OF INTERNAL AUDIT ON ORGANIZATIONAL PERFORMANCE:

THE CASE STUDY OF GOAL ETHIOPIA

BY

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**A RESEARCH PROJECT SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE
OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE
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ACCOUNTING AND AUDITING**

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Statement of Declaration

I, Selamawit Wondwosen, declare that the research project entitled “Effect of Internal Audit on Organizational Performance: The Case study of GOAL Ethiopia” submitted by me in partial fulfillment of the requirements for an MSc in Accounting and Auditing at Addis Ababa University, is my original work and has not been presented for the award of any degree in any other University or institution. I have undertaken it independently with the advice of my advisor, Takel Fufa, (Ph.D.). In performing the research project, I have used different sources and materials which have been properly acknowledged.

Declared by: Selamawit Wondwosen

Signature: _____

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This is to certify that the research project prepared by Selamawit Wondwosen, titled “Effect of internal audit on organizational performance: The Case study of GOAL Ethiopia” required to submit in partial fulfillment for the MSc in Accounting and Auditing under Addis Ababa University College of Business and Economics and meets the accepted standards concerning originality and quality.

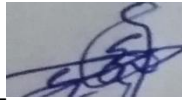
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5/12/2022

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Acronyms

CAE: Chief Audit Executive

COSO: The commitment of Sponsoring Organizations of the tread way Commission.

ERP: Enterprise Risk Management

GAAP: Generally Accepted Accounting Principles

IA: Internal Auditing

IFRS: International Financial Reporting Standards

IIA: Institute of Internal Auditors

IPPF: International Professional Practices Framework

ISPPIA: International Standards for the Professional Practice of Internal Auditing

IT: Information Technology

NGO: Non-Governmental Organization

SOX: Sarbanes-Oxley

SPPIA: Standards for the Professional Practice of Internal Auditing

SPSS: Statistical package for social science

SWOT: Strength, weakness, opportunity, and threat

Abstract

The main objective of the study was to examine the effect of internal auditing on organization's performance of GOAL Ethiopia in Addis Ababa. Descriptive study design was used for this study. Both qualitative and quantitative approaches are employed. Both primary data and secondary sources are used to collect the data. Primary data was collected using administered questionnaires from 40 respondents and interview was made with higher officials and auditors. Secondary sources were collected from different existing documents and books. Descriptive statistical tools such as percentages, mean and standard deviations are used in analyzing the data collected. The descriptive analysis shows all except top management support were found to have high influence on audit performance of the organization. According to the study, it is confirmed that career and advancement, professional competence, quality of audit work, and lack of enough top management support, lack of periodic revision of the guideline, lack of independency of the auditors and non-compliance of auditors to some extent to the guideline were found to be the issues that are disturbing effectiveness of audit activity in the study area. Furthermore, the correlation analysis shows there is a positive and significant association among the factors affecting auditing and audit performance of the organization. Finally, based on the findings some recommendations were forwarded to the organization.

Key words: Performance, career, professional competence, quality of audit work, independency, management support

CHAPTER ONE

Introduction

1.1 Background of the Study

Auditing plays an important role in government since it is a management tool for evaluating whether operations are executed economically, efficiently, and effectively. While it is true that auditors have the responsibility to evaluate government operations, management cannot and should not completely rely on the auditors to detect problems and recommend solutions. The auditors cannot do it all. Therefore, government managers, as part of their management responsibility, must routinely assess their own operations to assure themselves, their superiors, legislators, and private citizens that operations are well controlled and meet high expectations. If problems are found, by the auditor or by management, it is management's responsibility to act promptly and properly to initiate corrective action. (Standards for Audit of governmental organizations, programs, activities, and Functions, 1981 Revision)

Internal auditing has developed gradually based on socioeconomic development and the inherent needs of enterprise management (Xingdong, 1997). Dittenhofer (2001) also noted that internal auditing is evolving as a management process in both the private and public sectors. The function aims to provide an independent opinion on whether the organization's objectives are being achieved and, if not, to identify the circumstances that prevent them from being achieved (Tatiana et al, 2010).

NGOs occupy a central place in the country's development system and are essential subjects of the economic development process. The implementation of activities funded by donors, both international funds and local funds, in the country also increases the country's development process by providing employment opportunities for local residents and the provision of free services such as health services, development training, and citizen support; it is a massive contribution to the standard of living of the people of the country. NGOs are central to the accounting of donor funds because they contribute to the value for money of these funds, as they have direct contact with the beneficiary of the funds, thereby encouraging and facilitating the expansion of national and international support. In order for non-governmental organizations to function effectively and make a significant contribution to the country's development and achieve value for money,

organizations must be stable, safe, and reliable. And to fulfill these conditions, there must be a reliable accounting system, which is checked by the internal audit system. Such a system can also help to ensure that the organization is comply with laws and regulations, as well as policies, plans, internal rules, and procedures, and reduce the risk of unexpected fraud or damage to the organization's reputation. In this section, the researcher presents the effect of internal audits on organization activities, specifically the GOAL Ethiopia case study. Under this chapter, the researcher describes the background of the study, statement of problems, objectives of the study, research questions, significance of the study, the scope of the study, limitations of the study.

1.2 Background of the Organization

GOAL is an international non-governmental organization (NGO) with a history of more than four decades of humanitarian aid in the most difficult environments around the world. Motivated by a deep commitment to supporting those affected by disaster, poverty, and crisis, the mission remains as clear today as it was when the organization was founded in 1977. The realities of work have changed and grown immeasurably in complexity and scale, but their vision - a world without poverty - drives them forward.

Since the early 1980s, GOAL has been working in Ethiopia to implement cross-sectoral, humanitarian, and sustainability programs. In 2021, the GOAL program reached 3.1 million beneficiaries with operating costs of approximately €20 million. They have more than 800 employees who have worked in 60 districts in eight regional states: Afar, Amhara, Gambela, Oromia, Benishangul, SNNP, Tigray, and Somalia.

1.3 Statement of the Problems

In recent years, researchers and practitioners have widely discussed the need for internal auditors to increase the value of a company's operations and contribute to the achievement of corporate goals. According to Orma et al, (2012), this study focused on increasing attention to issues such as the evaluation and effectiveness of internal audit of organizational activities, especially in non-governmental organizations. NGOs employ their own internal auditors to conduct both financial and operational audits. Internal auditors focus on different areas. But the scope of internal audit can vary from one organization to another (arenas etal, 2012). The most important factors affecting the effectiveness of the practice of internal auditing of non-governmental organizations are the lack of strong internal control over financial reporting, the lack of proper procedures for the follow-

up (implementation) of audit recommendations, the lack of better use of new technologies, the workload of individual auditors, the lack of independence and improper position of auditors according to scholar Orma et al, (2012).

There are too many studies being done in our country related to this title. But no one, as far as the researcher knows, is proficient in NGO sector, so the researcher intends to conduct this study to fill the gap using a combination of some key variables such as audit performance, career and advancement, professional competency, quality of audit works, independency, and top-level management support. In non-governmental organizations, there is a high need for an effective internal audit system to monitor the organization's activities. Despite this, the researcher observes that there is an inadequacy of research on the effect of internal audits of the activities on INGOs in Ethiopia. Therefore, the study aims to examine and provide information on factors affecting internal audits on organizational performance, in the case of GOAL Ethiopia. This study came up with conclusions and recommendations for the effect of internal audits on the organizational performance of non-governmental organizations, particularly in the case of Goal Ethiopia.

1.4 Objective of the Research

1.4.1 General Objective

The main objective of the study is to examine the effect of internal audits on the organizational performance by taking GOAL Ethiopia as a case.

1.4.2 Specific Objectives

- To identify the role of internal audit on the organization's overall performance.
- To assess the effect of career and advancement on the organization's internal audit performance.
- To assess the effect of Professional competency on an organization's internal audit performance.
- To evaluate the effect of the Quality of Audit works on the organization's internal audit performance.
- To ascertain the effect of independency on an organization's internal audit performance.
- To assess the effect of top-level management support on the organization's internal audit performance.

1.5 Research Questions

- What is the role of internal auditing on an organization's performance?
- How does the career and advancement of Internal Audit affect the Organization's performance?
- How does professional competency in Internal Audit affect the Organization's performance?
- How does the quality of audit work affect the Organization's performance?
- At what level does the organizational independence of internal auditors affect the organization's performance?
- In what way does the top-level management support to internal auditors affect the organization's performance?

1.6 Hypothesis

The below relationships were hypothesized:

According to Goodwin-Stewart (2001) and IIA (2009; 2011), internal auditors who operate in settings with more organizational career opportunities will invest more effort in their work in order to increase their promotion opportunities than those with fewer opportunities for organizational advancement who will invest less effort in their work, reacting in a lower performance level. According to the above literature the researcher wants to hypothesize as; *H1a: Career and advancement have a significant and positive effect on internal audit performance.*

Appropriate staffing of an internal audit department and good management of the staff are keys to the effective operation of an internal audit (Tamene et al, 2014 Wanyoike, 2007). An audit requires a professional staff that collectively has the necessary education, training, experience, and professional qualifications to conduct the full range of audits required by its mandate (A1-Twajjry, Brierley, and Gwillian, 2003 Moraa, 2012). As per this literature the researcher wants to hypothesize as; *H2a: The competency of auditors has a significant and positive effect on internal audit performance.*

Internal audit quality, which is demonstrated by the offices' capability to provide useful findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored (Moraa, 2012 and Maletta, 2013)). The performance standards of the IIA (2004; 2009) require the auditor to plan and perform the work such that he or she would be able to arrive at

useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a substitution for audit quality (Moraa, 2012). Therefore, audit quality is debatably a function of extensive staff expertise. As per this literature the researcher wants to hypothesize as; *H3a: Quality of audit work has a significant and positive effect on internal audit performance.*

The internal audit guideline also states that internal auditors shall be independent of the activities they audit and preserve an independent attitude so as to conduct the audit activity effectively and efficiently (Sayag, 2010 Moraa, 2012). As per this literature the researcher wants to hypothesize as; *H4a: The independency of auditors has a significant and positive effect on internal audit performance.*

Internal audit departments must have the right and the resources needed to hire the right number of high-quality staff, maintain modern training and development, to obtain and maintain physical resources (Sayag, 2010 Tamene et al, 2014). Wanyoike (2007); Moraa (2012) and Tamene et al (2014) contended that top management support and commitment to change play a vital role in organizational renewal, as senior managers' can mobilize the critical mass needed to follow through on efforts launched by one or more visionary thinkers. As per this literature the researcher wants to hypothesize as; *H5a: Support of top-level management has a significant and positive effect on internal audit performance.*

1.7 Significance of the Study

The undertaking of this research contributes to the existing knowledge of internal audit effect on organizational performance. It would be useful to other researchers wanting to carry out studies aimed at removing the ambiguity of the role of internal audit function due to the indispensable need for internal audit function on organizational performance. It also adds to the currently available literature on internal audit effectiveness on organizational performance of non-governmental organizations. It's also sharpened the researcher 's analytical and judgment skills in carrying out future research across varying subjects. This study gave the organization an analysis of effect internal audit on organizational performance. This would help them to critically analyze and evaluate ways to effectively make use of the internal audit function to create value addition towards organizational performance.

1.8 Scope of the Study

The scope of this study is on the effect of internal audits on the organizational performance of NGOs in case of GOAL Ethiopia from which the data were collected and analyzed using primary and secondary source with descriptive design by applying both quantitative and qualitative approaches within the research period from June to November 2022 in Addis Ababa.

1.9 Limitation of the Study

In conducting this assessment, the researcher experienced some limitations as follow: most of the data are considered confidential therefore they were not willing to share it and the other limitation is most of the respondents is too busy with their daily schedule and have not spare time to complete the questionnaire. In such circumstances, the researcher must give ample time to those respondents to fill out the questionnaires on their own time; therefore, the researcher tried to solve this issue by serving them the questionnaires in time. Despite of this limitation, sufficient and reliable data have been collected to render the study meaningful in order to arrive at a useful conclusion.

1.10 Structure of the Study

This study is divided into the following five chapters. The introduction, background, statement of the problem, objectives, questions, hypothesis, significance, scope, and limitations of the study are presented in the first chapter. The related literature reviews of the study are covered in Chapter two. The research design, research approach, techniques of data collecting, sample design and administration, data collection instruments, and methods of data analysis are all covered in Chapter 3's analysis of research methodology. Chapters 4 and 5 covers data analysis and conclusions and recommendations respectively.

CHAPTER TWO

Related Literature Review

2.1 Introduction

This chapter is an overview of internal auditing performance. It focuses on auditing performance, methods, and practices that facilitate the economy, efficiency, and effectiveness in the use of the organization's resources. The first section of the chapter identifies the theoretical issues on auditing performance that include the concept of audits, classification of audits, and the relationship between internal audits and NGO and describes the types of audit findings. The second section examines the empirical issues on the assessment of audit performance from the experiences of other countries as well as Ethiopia. The third section demonstrates the conceptual frame of the factors affecting audit performance and finally, a summary and literature gap of the reviewed literature.

2.2 Theoretical Issues on Internal Auditing

2.2.1 The Concept of Internal Auditing

According to records from a Mesopotamian civilization dating back to 3500 BC, the history of auditing began when man became aware of the necessity to protect both governmental and private property (Nordin, 2003 and Dumitrescu, 2004). These financial transaction records had numerous annotations that may be interpreted as internal controls, a system of verification, and a division of roles (Nordin, 2003).

Following World War II, the management science field advanced steadily, and the internal audit profession did as well. It shares numerous conceptual similarities with compliance, quality assurance, and financial auditing by public accounting companies. The theory of internal auditing was primarily developed by Lawrence Sawyer (1911–2002), often referred to as "the father of modern internal auditing," and the current philosophy, theory, and practice of modern internal auditing as defined by the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors. While some of the audit technique underlying internal auditing is derived from management consulting and public accounting professions, the theory of internal auditing was primarily conceived by Sawyer (1911–2002).

The Latin term "audition" which gave rise to the English word "audit" implies listening to, hearing, analyzing, and questioning (IIA, 2012). Although this relationship is rarely as detrimental as in the case of traditional inspection, an audit is frequently linked to control (Morgan, 2009 and Wynne, 2001). The ISO 9000 family of standards provides a definition of an audit, which is presented as follows: an audit is a systematic, independent, recorded process of acquiring evidence of the audit and its objective evaluation in order to ascertain the extent of audit criteria fulfillment. The term "audit" can refer to either an internal audit carried out by a company itself or an external audit carried out by a company that has hired an auditing firm (Manoukian, 2016). Some people use the term incorrectly by conflating the two and this is important because an internal audit and an external audit may assess different things and have different frameworks and workflows.

Internal auditing is a self-governing, objective, consulting activity that is intended to provide value and advance an organization's operations, according to the Institute of Internal Auditors (IIA) (2009). Applying a structured, disciplined approach to evaluating and developing the efficacy of risk management, control, and governance procedures, it aids a company in achieving its goals (Morgan, 2009). Professionals that have a solid understanding of the company culture, systems, and processes conduct internal audits. The internal audit function is anticipated to provide assurance that governance procedures are efficient and effective, internal controls are adequate to reduce risks, and organizational goals and objectives are being accomplished (IIA, 2004 and 2005). The internal audit activity offers guarantees that internal controls in place are sufficient to improve the risks, and governance processes and competent and organizational goals and objectives are being met (Internal Auditors Expert, 2013).

The purpose of internal auditing is to offer value and enhance an organization's operations. It is an impartial, unbiased assurance and consulting activity. It provides a systematic, disciplined method for assessing and enhancing the efficacy of risk management, control, and governance procedures, which aids a company in achieving its goals (Internal Auditors Expert, 2013). By offering knowledge and suggestions based on analyses and evaluations of data and business processes, internal auditing helps an organization's governance, risk management, and management controls (Wood, 2012). Internal auditing offers benefits to governing bodies and senior management as an objective source of independent advice with a commitment to integrity and accountability. Organizations use specialists referred to as internal auditors to carry out internal auditing tasks.

The degree to which an internal audit office achieves its goals is referred to as internal audit effectiveness (Mihret & Yismaw, 2011; Cohen and Sayag, 2010). Audit standards, goals, objectives, rules, and procedures, as well as the auditors' professional practices and obligations, are what determine how well an audit is conducted (Cohen and Sayag, 2010). Therefore, the internal audit function's overall design should be tailored to each country's unique priorities and objectives, as well as situations where governance is the primary challenge. The internal audit function should then be concentrated on ensuring compliance with financial laws and regulations (Diamond, 2002). Effective internal audit in the public sector, according to the Institute of Internal Auditors (IIA), concentrates on ensuring good governance. Internal auditors play a crucial role in advancing governance, which is important for the organization's promotion of accountability and openness in financial management, as well as for lowering risk and reducing corruption. In this regard, it is crucial that the internal audit functions and structure are successful in order to achieve the intended objectives, and internal auditors should be empowered to act with integrity and provide trustworthy information for action to be assumed (IIA, 2011).

The scope of internal auditing within an organization, according to Wood (2009 and 2013), is broad and may cover subjects like governance, risk management, and management controls over: the effectiveness/efficiency of operations (including the protection of assets), the dependability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve participating in fraud investigations under the supervision of fraud investigation specialists, conducting proactive fraud audits to spot potentially fraudulent acts, conducting post-investigation fraud audits to spot control failures, and establishing financial loss.

Internal auditors provide management and the Board of Directors (or equivalent oversight body) with recommendations on how to carry out their duties more effectively rather than being in charge of carrying out corporate activities (www.wikipedia.org). Internal auditors may come from a range of higher educational and professional backgrounds due to their wide range of participation.

2.2.2 Types of Audits

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 resources.

Compliance Audits:

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

Information Systems (IS) 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.

2.2.3 International Internal Auditing Standards

The Institute of Internal Auditors (IIA) is the widely acknowledged organization that develops international standards for the internal audit profession and grants the designation of Certified Internal Auditor to individuals around the world after a demanding written examination. In some nations, there are more classifications available. In the US, numerous states' statutes governing the practice of internal auditing in government (New York State, Texas, and Florida being three examples) have codified the professional standards of the Institute of Internal Auditors (IIA, 2013)

Government organizations (federal, state, and municipal), publicly listed businesses, and non-profit organizations across all industries use internal auditors. The International Standards for the Professional Practice of Internal Auditing (ISPPA), Code of Ethics, and the International Professional Practices Framework (IPPF) are publications produced by the Institute of Internal Auditors that provide standards and recommendations for internal auditors (www.wikipedia.org). All styles of internal audits are under the purview of these criteria. The standards offer a framework

for conducting and promoting internal audits and are principle focused. The standards are obligatory requirements that include assertions of fundamental criteria for conducting internal audits professionally and assessing how well it performs (Cohen and Sayag, 2010). The requirements are applicable at both the organizational and individual levels internationally.

2.2.4 Internal Audit in Practice

Internal auditing in practice, according to Gramling (2004), entails creating a strategic role for internal audit, defining the work, establishing arrangements (co-sourcing, out-sourcing), transforming the function, establishing the prerequisites for the use of audit committees, assisting in putting ideas into practice, and enhancing audit quality, efficiency, and cost-effectiveness.

In general, internal auditing has the following roles.

1. Role in organizational independence

The IIA professional standards, as well as the accompanying practice guidelines and practice advisories, all extensively emphasize independence and objectivity, despite the fact that internal auditors are not independent of the firms that employ them (IIA, 2012). The IIA guidelines require professional internal auditors to remain impartial toward the corporate operations they examine. The internal audit department's organizational structure and reporting lines enable it to maintain its independence and objectivity. Internal auditors of publicly traded businesses in the US are supposed to report functionally to the board of directors directly or to a subcommittee of the board (usually the audit committee), and not to management save for administrative purposes (Gramling, 2004).

Internal auditors can efficiently carry out their tasks thanks to the necessary organizational independence from management, which enables unlimited review of management operations and personnel. Even though internal auditors are employed by the company and get compensation from it, the organization in charge of managing management's activities is the main recipient of internal audit services. This is normally the audit committee, a board of directors subcommittee. When the chief audit executive reports to the board in a functional capacity, the board is involved in approving the internal audit charter, the risk-based internal audit plan, the internal audit budget and resource plan, and receiving communications from the chief audit executive on the performance of the internal audit activity in relation to its plan and other matters: approving

decisions regarding the appointment and removal of the chief audit executive; approving the remuneration of the chief audit executive; and making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations (www.wikipedia.org).

2. Role in internal control

The main goal of internal auditing is to assess internal control. According to the COSO Framework, internal control is broadly defined as a procedure carried out by a company's board of directors, management, and other staff members and intended to give reasonable assurance regarding the accomplishment of the following key goals that every company aspires to: effectiveness and efficiency of operations, dependability of financial and management reporting, adherence to legal requirements, and asset protection (www.coso.org).

Companies implement controls as a way to minimize risk and improve the chances that everyone will work toward the same goals and objectives (Gramling, 2004). Internal auditors assess controls in areas including financial compliance, operational effectiveness, and data and information security. These controls can be preventive, meaning designed to prevent errors from being introduced, or detective, seeking to find errors or irregularities after the fact. Auditors take an objective look at how these controls are serving the organizational goals.

Internal control falls under the purview of management, and it consists of five essential elements: the control environment, risk assessment, risk-focused control actions, information and communication, and monitoring activities (www.wikipedia.org). To assist the organization in achieving the four outlined specified objectives, managers adopt policies, procedures, and practices in these five components of management control. Internal auditors conduct audits to determine whether the five management control components are present and functioning properly, and if not, to offer suggestions for improvement.

3. Role in risk management

The function of internal auditing must assess the success of the organization's risk management initiatives in accordance with professional standards. The process through which a company detects assesses, responds to, learns more about, and keeps track of strategic risks that can actually

or hypothetically affect the company's capacity to carry out its goals and missions is known as risk management (www.wikipedia.org).

According to the COSO enterprise risk management (ERM) paradigm, a company's strategy, operations, reporting, and compliance objectives are all linked to strategic business risks or the adverse effects of internal and external occurrences that prevent the company from achieving its goals (www.coso.org). As part of routine business operations including strategy planning, marketing planning, and capital planning, management evaluates risk. Creating a budget, hedging risks, setting incentive payouts, managing credit, and lending, mergers and acquisitions, forging strategic alliances, implementing new laws, and more. Regulations under Sarbanes-Oxley demand a thorough risk analysis of financial reporting procedures. Corporate legal counsel frequently creates concise analyses of the ongoing and upcoming legal issues a company may encounter. Internal auditors may assess each of these actions or concentrate on the overall procedure for managing risks across the entire company (IIA, 2012). To help the board and other stakeholders identify emerging risks, internal auditors can, for instance, advise management on how to report forward-looking operating measures, or they can assess and report on whether the board and other stakeholders can have a reasonable assurance that the management team of the organization has implemented an effective enterprise risk management program.

Major strategic initiatives are launched in larger businesses to accomplish goals and bring about changes. The Chief Audit Executive (CAE) may take part in status briefings on certain significant initiatives as a member of senior management (www.wikipedia.org). This puts the CAE in a position to either assure management's reporting is useful for that purpose or report on many of the key risks the firm confronts to the Audit Committee.

Utilizing fraud risk assessment techniques and the concepts of fraud deterrence, the internal audit function may assist the company in addressing its fraud risk. Companies may benefit from internal auditors' assistance in establishing and maintaining enterprise risk management procedures (www.coso.org). Many firms place a high value on this procedure since it helps them create and put in place efficient management systems, guarantee quality is maintained, and uphold professional standards. Internal auditors are crucial to a company's ability to implement a Sarbanes-Oxley (SOX) 404 top-down risk analysis. Internal auditors often serve in an advisory

capacity as a member of the risk assessment team in these last two categories (www.wikipedia.org).

4. Role in corporate governance

The internal audit's job in corporate governance is to determine whether the organization's procedures, strategies, and standards are the most appropriate for achieving its goals and providing its stakeholders with services that are morally and legally correct. Typically, it serves as an advisory body, alerting the executive team to control-related difficulties. An internal audit may assume a more formal supervisory role, especially in businesses or sectors that have experienced governance problems in the past. For instance, if a company has been charged with financial crimes, this transgression of corporate ethics probably calls for a formal reaction from an internal audit (Gramling, 2004).

In the past, internal auditing activity in relation to corporate governance was typically informal and was mostly carried out by attending meetings and having conversations with board members. According to COSO's ERM framework, governance refers to the rules, procedures, and frameworks that the organization's leadership uses to guide operations, accomplish goals and safeguard the interests of various stakeholder groups in a way that is morally right (www.coso.org). One of the "four pillars" of corporate governance, along with the board of directors, management, and external auditor, is frequently the internal auditor (www.wikipedia.org).

As it relates to corporate governance, one of internal auditing's main areas of concentration is assisting the Audit Committee of the Board of Directors (or its equivalent) in carrying out its duties successfully (www.wikipedia.org). This can entail alerting management to serious problems with management controls, offering suggestions for agenda items for audit committee meetings, and working with management and the external auditor to make sure the committee has access to the right information. The IIA has pushed for a more formal assessment of corporate governance in recent years, especially in the areas of board oversight of enterprise risk, corporate ethics, and fraud (IIA, 2009; 2012).

2.2.5 Conducting Internal Audit

Internal auditors, management, and oversight Boards decide where to concentrate internal auditing efforts based on the organization's risk assessment. The annual/multi-year audit planning includes

this focus or prioritizing. Typically, the CAE submits the audit plan for examination and approval by the Audit Committee or Board of Directors (occasionally with many options or alternatives). Typically, one or more discrete assignments of internal auditing practice comprise an internal auditing activity (www.wikipedia.org).

Resources needed for conducting internal audit includes information for decision making, information technology, information system, information system development, assessment of risks and its management, business continuity plan, disaster recovery plan and hardware, software, and network audits (www.wikipedia.org).

A typical internal audit assignment involves the following steps:

1. Establish and communicate the scope and objectives for the audit to appropriate management.
2. Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves a review of documents and interviews. Flow charts and narratives may be created if necessary.
3. Describe the key risks facing the business activities within the scope of the audit.
4. Identify management practices in the five components of control used to ensure each key risk is properly controlled and monitored.
5. Develop and execute a risk-based sampling and testing approach to determine whether the most important management controls are operating as intended.
6. Report issues and challenges identified and negotiate action plans with management to address the problems.
7. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

Audit assignment length varies based on the complexity of the activity being audited and the Internal Audit resources available (www.wikipedia.org). Many of the above steps are iterative and may not all occur in the consequences indicated. In addition to assessing business processes, specialists called Information Technology (IT) Auditors review Information technology controls.

2.2.6 Internal Audit Reports

At the conclusion of each audit, internal auditors often produce reports that include a summary of their conclusions, recommendations, and any answers or action plans from management (www.wikipedia.org). An audit report could comprise an executive summary, a body with the particular concerns or findings found, recommendations or action plans connected to those recommendations or plans, and appendix data like in-depth graphs and charts or process information. The body of the report may have five components, frequently referred to as the "5 C's," for each audit finding:

1. Condition: What is a particular problem identified?
2. Criteria: What is the standard that was not met? The standard may be a company policy or other benchmark.
3. Cause: Why did the problem occur?
4. Consequence: What is the risk/negative outcome (or opportunity foregone) because of the finding?
5. Corrective action: What should management do about the finding? What have they agreed to do and by when?

The recommendations in an internal audit report are designed to help the organization achieve effective and efficient governance, risk and control processes associated with operations objectives, financial and management reporting objectives; and legal/regulatory compliance objectives (Gramling, 2004).

Audit findings and recommendations may also relate to particular assertions about transactions, such as whether the audit of the transactions was valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements (www.wikipedia.org).

Under the IIA standards, a critical component of the audit process is the preparation of a balanced report that provides executives and the board with the opportunity to evaluate and weigh the issues being reported in the proper context and perspective (IIA, 2001; 2004 and 2009). In providing perspective, analysis, and workable recommendations for business improvements in critical areas, auditors help the organization meet its objectives.

Internal auditors offer an unbiased evaluation of a company's operations, including its internal control system, for effectiveness and efficiency (www.wikipedia.org). The internal audit role contributes a systemic, disciplined approach to assessing and enhancing the efficacy of risk management, control, and governance procedures, assisting a business in achieving its goals. Internal auditing has a wide range of responsibilities, including monitoring the effectiveness of business processes, IT controls, the accuracy of financial reporting, preventing and identifying fraud, and adhering to legal and regulatory requirements (Wood, 2009; 2013). Internal auditors may also carry out compliance and operational audits, providing fixes for internal control flaws and confirming conformity with all laws and regulations.

According to international audit experts (2013), the Quality of Internal Audit Reports includes:

- Objectivity- The comments and opinions expressed in the Report should be objective and unbiased.
- Clarity-The language used should be simple and straightforward.
- Accuracy-The information contained in the report should be accurate.
- Brevity-The report should be concise.
- Timeliness-The report should be released promptly immediately after the audit is concluded, within a month.

2.2.7 Strategy for Internal Auditing (IA)

Functional strategies may also be developed by internal audit functions and included in multi-year strategic plans. The Institute of Internal Auditors published a Practice Guide titled Creating the Internal Audit Strategic Plan in July 2012 to provide experts' advice on creating an internal audit strategic plan (IIA, 2012). Understanding the expectations of stakeholders, including the Audit Committee and top management, is a critical component of designing an IA strategy. This directs the IA function in fulfilling its goal of assisting the organization in managing the risks it faces. Particular subjects taken into account in IA strategic planning include:

- ❖ Scope and emphasis: An IA function may be involved in addressing risks related to financial reporting, operations, legal and regulatory compliance, and the company strategy.

There may also be special topics of interest to stakeholders that change considerably year-to-year.

- ❖ Portfolio of services: IA functions may provide traditional audit assurance across the risk spectrum as well as consulting project support in a variety of areas such as project management, data analysis, and monitoring of major company initiatives. Larger audit functions may establish specialty areas to handle their service portfolio.
- ❖ Competency development: The stakeholder expectations around scope and service portfolio determine what competencies the function needs, which drives decisions regarding the hiring of specific skills and training programs. The internal audit function is often used as a “management training ground” to provide employees with a deeper knowledge of the company’s operations before they are rotated into a management position (Wood, 2011).
- ❖ Technology: IA functions use a variety of technology tools/software to support audit process workflow, statistical analysis, and obtaining data from systems.

Building the internal auditing strategy may involve a variety of strategic management concepts and frameworks, such as strategic planning, strategic thinking, and SWOT analysis (www.wikipedia.org).

2.2.8 Internal Audits versus External Audits

A company's financial statements are audited by independent external auditors to make sure they are presented fairly and don't include any substantial misstatements in line with generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS) (Mihret and Admasu, 2011). Internal auditors (IA) are employed by an organization to monitor and assess its own business activities in order to assess how well it complies with a set of predetermined standards. Internal auditors offer an unbiased, impartial assessment of the governance, internal control, and risk management procedures within a firm. They confirm that internal controls are set up and functioning properly to stop and catch fraud. As a result, an internal audit differs from an external audit. The objectives are different, as well as other processes. These are the differences, and demonstrate the enhanced effectiveness of an internal audit over an external one:

- An external auditor reports to shareholders who are outside the governing structure of an organization, while an internal auditor reports to those within the governing structure. More

direct change and good can be done for the organization when those involved in running it get the information from the auditor.

- The objective of an external audit is to give reliability and credibility to the financial reports that go to shareholders. The objective of an internal audit is to educate management and employees about how they can operate the business better and more effectively. This allows a business to prosper, both financially and in employee satisfaction.
- External auditors have no responsibility to the organization other than reporting on financial findings. An internal auditor is also a consultant and has the responsibility of advising management and the upper authorities in the company as to how to implement their suggestions to make the company thrive.

2.2.9 Benefits of Internal Auditing

The benefits associated with auditing performance could include economy such as reduction in costs through better contracting and reduction in cost through economies on usage of personnel or other resources, efficiency like improved productivity and asset utilization levels and remedying duplication of effort or lack of coordination, effectiveness such as better identification/justification of need, clarifying objectives and policies and better achievements of objectives by changing the nature of outputs or improved targeting, improved quality of service like shorter waiting time, reduced response times, better access to information, and helping the public, client and industry, improved planning, control and management such as introduction/improvements to corporate planning and clearer definitions of priorities and better-defined targets, better control and management resources such as tighter controls against fraud and better financial and operational management information, and improved accountability such as improved visibility of producers and outputs and better and/or more accurate performance indicators (Gramling, 2004 and Mihret & Yismaw, 2011).

2.2.10 Guidelines in Measuring and Assessment of Internal Audit's Effectiveness

Gramling (2004) tried to identify the relevant guidelines in measuring and assessment of the internal audit's effectiveness, we appreciated that the classification of methods used should be made from two perspectives: quantitative and qualitative.

A. Qualitative methods for measuring the internal audit's effectiveness.

1. Determination of fulfilling the degree of internal audit plan that consists in establishing the proportion that internal audit activities are realized according to the internal audit plan in a certain period of time. This can be measured by determining the number of realized activities reported at a certain planning period time for each type of activity.
2. Identification of the necessary period of time for the issuing of the final internal audit report that consists of the determination of the past time from ending internal audit work to the issuing of the final internal audit report, including the plan of actions for the management.
3. Monitoring the necessary period of time for the solving of audit findings that supposes to look for the period of time necessary for the solving of internal audit findings. From this point of view, we consider it very pertinent to realize statistical database through to be followed different elements like the number of deficiencies solved in established time, the number of deficiencies solved with delay, and the number of deficiencies unsolved.
4. The assessment of personal's certification: from a quantitative point of view, they can be determined through the number of staff employees from the internal audit department with professional certification diplomas or the professional experience quantified in years of internal audit work.
5. Determination of the report between times dedicated for certain internal audit activities and the time dedicated for administrative activities that can be determined through daily monitoring of each internal auditor's time by clearly specifying of types of activities realized during a day of work.

B. Qualitative methods for the assessment of internal audit's performance

Analyzed from a qualitative point of view, the most frequent methods for the assessment of the internal audit's performance are:

- ✓ Fulfilling of some studies (questionnaires or interviews) next to the ending of the internal audit missions and the respondents to be the organization managers.
- ✓ Fulfilling of some studies (questionnaires or interviews) next to the ending of the internal audit missions and the respondents to be the auditees.

2.3 Empirical Evidence on Internal Auditing

2.3.1 The Experience of other Countries

According to Peursem (2004), extensive research has been done in New Zealand on the role and power of internal auditors. The need for the tasks internal auditors perform in connection with audit engagements, as well as their perception of their level of professional authority and independence over management, were all questions that internal auditors were asked to comment on. All of the New Zealand auditors who participated in the study were members of the IIA's New Zealand section. A comparatively high percentage (73%) of replies were received for the initial and follow-up questionnaires. The study found that, despite their lack of predominance, characteristics of a true "profession" do exist.

The fundamental question is how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance. The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor's external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in defining their own role.

For the case of the cited organizations, Keitany (2000) conducted research on internal audit control functions and their implications for risk assessment by the internal auditor. This was a qualitative study that employed many case-based methodologies. The researcher observed, looked over paperwork, and spoke with senior internal auditors in six New Zealand companies. He came to the conclusion that businesses shouldn't abandon internal control, despite the fact that it does not take into account the capabilities of audit departments. This is due to the fact that, as a management tool, it should support management in its daily operations and isn't always relevant to the external auditor. This could be explained by the possibility that external auditors have particular considerations that go beyond the strength of internal controls. But the most crucial element in acquiring audit proof, according to other indicators, was the internal control system. Finally, he advised that once the auditor determines the effectiveness of the audit department, other risk indicators should be considered while still considering the effectiveness of internal control. The auditor's capacity to control ambiguity informs these concepts.

Mawanda (2008) in his study established a significant relationship between the internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number of staff would be required to do this job.

According to Mutua (2012), risk-based auditing should be improved through internal auditing standards and staffing in order to help businesses identify risks early on and focus on high-risk areas, which will increase transparency and accountability while also improving financial performance. This demonstrated that there is a link between financial performance and internal audit.

Internal Auditing Effectiveness Success Model: A Study on Jordanian Industrial Firms was researched by ALshbiel in April 2017. This study's major goal is to examine the variables that have an impact on internal auditor performance, particularly in industrial firms. Based on a thorough study of prior research, five hypotheses were developed. The information was acquired via 350 useable questionnaires that were sent to chosen internal auditors in industrial SMEs in Jordan. The data are the results of various testing. These consist of hypothesis testing, discriminatory validity, and factor analysis. The findings show that organizational factors have a substantial impact on the internal auditor's effectiveness. The findings of this study, discovered a substantial correlation between (Internal Audit Quality, Competence, and IA Effectiveness) of the Internal Audit Team, Audit Committee, Top Management Support, and Independence of Internal Audit) and the effectiveness of IA.

This study adds to the body of knowledge about internal auditor effectiveness in a novel context and clarifies the elements that promote or inhibit internal auditor effectiveness. This paper fills a vacuum in the literature by offering the suggested theoretical framework. In terms of internal auditor effectiveness, the framework assesses the connections between the organizational components. As a result, the study highlights the variables affecting internal auditor effectiveness generally, particularly in Jordan. The study also paves the way for future research into a related subject for more in-depth information in both Arab countries and other emerging countries.

Njoroge (2016) performed research on the elements that determine how well government ministries in Kenya perform their internal audit functions. The study set out to accomplish the following goals: to ascertain how the working environment of internal auditors in government

ministries affects their performance; to evaluate how obstacles to their independence in government ministries affect their performance; and to evaluate the impact of technical competency on their performance. The study discovered that the working environment of internal auditors affected the performance of the internal audit function, and the function's performance is impacted by the presence of a clear structure of responsibility connected to set targets, flexibility in the approach of the internal audit work, better exposure of internal audit staff through attendance of professional conferences and exchange programs, professional training support, and a clear recognition and reward sys. The study also revealed that having a clear structure of accountability tied to predetermined goals, flexibility in how internal audit work is approached, and better exposure for internal audit staff through attendance at internal audit functions all have an impact on the performance of the internal audit function, professional conferences and exchange programs, professional training support, and a clear recognition and reward system.

He came to the conclusion that the technical proficiency of internal auditors has an impact on the function's performance and that audit staff members must be proficient in risk profiling, performance measurement principles, financial analysis tools and techniques, ICT and tech-based audit techniques, and an overall understanding of organizational objectives and how these relate to the internal audit function's goals. Finally, he advised that the ministries continue to hold seminars and workshops to train internal auditors and that the heads of the internal audit department should answer to the audit committees, which have the necessary power to encourage independence and guarantee the accomplishment of the broad audit objectives. The report further advises the internal audit function to utilize the most recent internal audit software and be informed of changes to internal audit frameworks in order to strengthen their crucial role in the creation of efficient public financial management systems in Kenya.

Internal auditing's independence may be affected by two things. First, internal auditing services must be independent of the organization, and then internal auditors must be independent of one another (Goodwin-Stewart, 2001). The relationship between the audit committee and the internal audit activities can be used to illustrate organizational independence. While the individual independence of internal auditors is all about the staff members' neutrality and independence inside the IA department, they also consider the utilization of IA activities as a justification for top management level (Goodwin-Stewart, 2001). According to this perspective, organizational

independence can be achieved by reporting IA activities to higher organizational entities. While staff impartiality, unbiasedness, and the avoidance of conflicts of interest might fulfill individual independence (IIA, 2001).

Hack (2013) conducted a study on the difficulties faced by internal auditors in 24 European nations and discovered that the primary difficulties were the expanding technical skills gap, corruption, and lack of authority. The study also identified additional issues that prevent internal auditors from performing their jobs effectively, such as high maintenance costs, reluctance to travel, cultural and linguistic differences, failure to adhere to quality standards, and a lack of familiarity with acceptable accounting standards, rules, and local laws. Only 34% of respondents to the research agreed that internal auditors adhered to internal audit guidelines. The report suggested that the institution should improve its internal auditing skills. Hack (2013) noted that 89% of respondents indicated that risk assessment was typically done in their respective organizations to support the internal audit planning process. However, only 44% of the respondents had the necessary abilities, and he emphasized that internal auditor training was essential since a lack of auditing skills impairs the functioning of the internal audit function. The American Accounting Association (2011) conducted research on competency issues and found that internal auditors should only perform tasks for which they have the necessary training, expertise, and experience. They should also carry out their duties in accordance with the standards and work to continually improve their performance.

A study on the influence of the auditor's internal controls view on loan decisions was done by Schneider and Church (2008). They concluded that a poor internal control opinion could undermine the assurance offered by an unqualified opinion on the financial statements as a whole and negatively impact lenders' evaluation. An unfavorable internal control opinion makes lenders less confident that financial statements are presented accurately and in accordance with generally accepted accounting principles, which diminishes the weight given to the balance sheet and income statement in lending decisions.

An organization's financial performance can be significantly impacted by a competent internal audit service, which can assist save expenses, finding ways to increase efficiency, and maximizing exposure to potential losses from insufficiently safeguarded business assets. He added that an internal audit is a crucial management tool for raising performance. Internal auditors contribute to a firm being operated more effectively and efficiently, which raises shareholder value, according to Fadzil et al. (2005). Finally, Hermanson and Rittenberg (2005) suggested that greater organizational performance is correlated with the presence of an efficient internal audit function.

2.3.2 The Experience of Ethiopia

A good internal auditor is one who performed his duties successfully and efficiently and helped any given public organization implement good governance practices (Belay 2007). He continued by saying that credibility problems make it difficult for internal auditors to carry out their obligations in promoting accountability, transparency, and good governance. For instance, misuse of public monies as evidenced by scandals like 2005's Anglo-Leasing, Judiciary, and Ministries of Agriculture and Education scandals are signs of insufficient public internal auditing and subpar internal auditor performance.

Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions was the subject of research by Bethlehem (2009). According to the study, planning without execution, monitoring, and feedback loops is useless. The internal audit plan for this year has been satisfactorily finished, according to 43% of the respondents. And a lot is expected of them to enhance the value of their audit strategy by successfully completing what is intended through the deployment of enough and relevant resources. Last but not least, internal auditors' understanding of systems and controls is crucial to the reengineering of essential business processes. She suggested that internal auditors' proficiency be developed by ongoing professional development in order to increase their competency. By looking into, assessing, and reporting to management on its efficacy, the executive management should build an internal audit function to support internal control, corporate governance, and risk management at the individual universities. If management just responds to the internal audit activity's conclusions and recommendations, its goal will be accomplished.

Internal Audit: Reporting Relationship in Ethiopian Public Enterprises was the subject of research by Samuel (2008). He discovered that the internal audit scope of Ethiopian public firms is more

constrained when it comes to the evaluation of internal control, fraud investigation, and the verification of financial transactions (financial audit). In other words, rather than managing issues, the internal auditors of Ethiopian public firms focus primarily on accounting and financial concerns. The independence of internal auditors is put in jeopardy by a weak or unclear reporting structure, and when the independence of the auditors is compromised, the audit work ceases to be of value. For auditors, independence is a contentious topic, especially for internal auditors who are required to be independent but working for the organization. Vague reporting in this complicated circumstance relationship makes the problem worst. He concluded by advising that the size and caliber of internal audit staffs in public firms be increased. Ample funding should be allotted, and expert trainings should be scheduled, to improve the quality of internal audit services. Furthermore, internal auditors should collaborate on a national level and maintain and advance their profession.

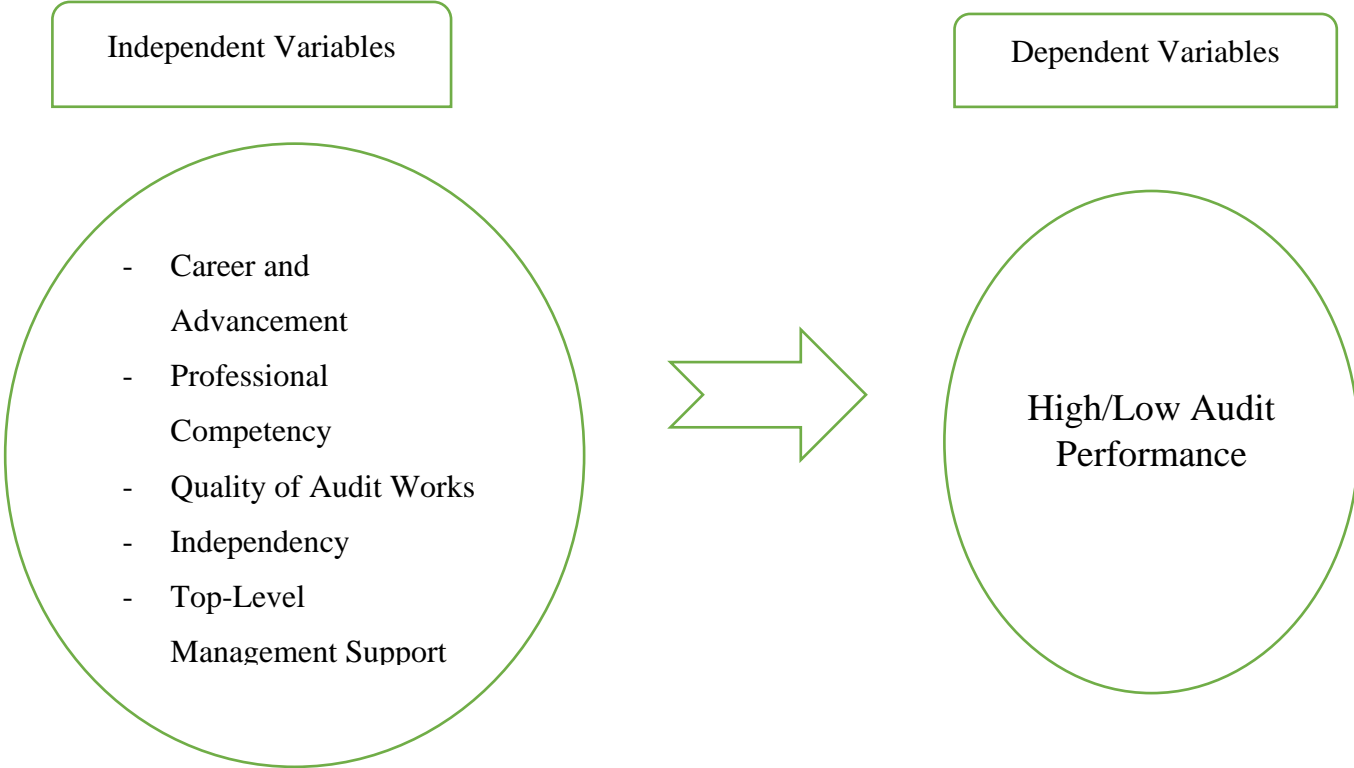
Research on the growth of internal auditing in Ethiopia: the contribution of institutional standards was done by Mihret et al. in 2012. This study looks at how institutional norms influence the characteristics of internal audit practices and how institutional changes can be used to explain how these practices have evolved. The writers used a qualitative research methodology based on data from interviews and examination of historical records. The study's conclusions suggest that institutional norms based on regulation explain why internal audit was adopted in Ethiopian firms as well as the characteristics of the function. Additionally, the innovative implementation of internal audit processes starts within certain firms and subsequently institutionalizes itself through dissemination. These innovations are related to organizational scale, traits of senior management, technological advancements in internal audit, and exogenous input from the outside environment. Widely used internal audit procedures are not always taken for granted at the level of particular organizations even though they are considered institutional norms. In this paper, the growth of internal audit procedures is theorized from the standpoint of institutional transformation. Finally, they draw the conclusion that as the first study to do so, it contributes to the understanding of key institutional change drivers that launch new institutional norms and support the development of internal audit by introducing and disseminating new audit practices as the traditional ones are deinstitutionalized.

Training and development can be accessed by external bodies such as educational institutions, industry controlling bodies, or training institutions and internal bodies such as in-house training developed by companies themselves (Abu-Azza, 2012; Mihret, et al., 2010). These kinds of training and development can enhance the auditors’ performance in line with the development of the organization and department performance, and the value-adding role of internal auditors (Wubishet& Dereje, 2014; George, et al., 2015).

2.4 Conceptual Framework

This shows the direction of the flow of the research. This shows the relationship between the independent variables (factors affecting internal audit performance); competency of internal auditors, quality of audit work, organizational independence, career and advancement, and top management support, and the dependent variable (High/Low Audit Performance).

Figure 1 Conceptual Framework



Source: Researcher

2.5 Literature Gap and Summary

From the Literature review, several researchers seem to agree that there is a relationship between internal audit and an organization's performance. These conclusions were confirmed after empirical evidence was obtained from the research. This literature review is also argued five potential factors related to the effectiveness of IA on organizations' performance. These are competence of IA, independence of IA, quality of IA work, management support, and career and advancement of internal auditing. Previous studies show that competency plays a critical role in the effectiveness of IA (Abu-Azza, 2012; Albercht et al., 1988; Arena & Azzone, 2009; Baharuddin, et al., 2014; Belay, 2007; George et al., 2015; Mihret & Yismaw, 2007; Mihret et al., 2010; Ramachandran et al., 2012; Wubishet & Dereje, 2014 and Mihret, 2010). If an organization has competent internal audit staff, then the following benefit will realize in the firm. Firstly, they have the ability to conduct effective audit in the organization. Secondly, it reduces the cost of audit which scarified to external auditors as a result of external auditors make their investigation depends on internal audit reports (Goodwin-Stewart & Kent, 2006). Thirdly, internal auditors can provide information regarding on reports in an ideal position (Engle, 1999).

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization's agreed objectives. In addition, internal audit's findings are beneficial to the Board of Directors and line management in the audited areas (www.coso.org). The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures, and operations that management put in place to ensure the achievement of the organization's objectives, and through recommendations for improvement (Dumitrescu, 2004).

The assessment of the Effectiveness of IA can add value to the business and enhance the department and organizational performance. However, there seems to be very few studies done on effeteness of internal audit in NGOs performance. According to the literature review, the researcher suggests the following gaps in the literature.

2.6 Performances' Measurement of NGOs

Up until recently, non-governmental organizations mostly focused their efforts on fostering ethical-social motivation and technical professionalism through the involvement of medical

professionals including doctors, nurses, engineers, and physicians. For development, relief from natural catastrophes, and other urgent humanitarian challenges, the majority of NGOs were involved in international cooperation. Since NGOs are now forced to answer for how the limited financial and non-financial resources are used, the ethical-social motivation and technical professionalism are no longer sufficient. Additionally, the surroundings in which the NGOs work force them to evaluate and support the performance of their tactics (Ramadan and Borgonovi, 2015). These businesses' operational environments are particularly dynamic and dangerous, and their overall efficacy depends on addressing a variety of stakeholder needs by setting up a reasonable and doable performance assessment and monitoring system. They are expected to manage and evaluate their performance from a variety of perspectives, taking into account the success of the projects or programs as well as the motivation and goals of the donors, the unique requirements of the beneficiaries, and the internal efficacy (Ramadan and Borgonovi, 2015).

2.7 Performance Measurement and Management Practices of NGOs

According to Teelken (2008), numerous studies have shown the value of employing performance measurement and management in various businesses. The literature provides theoretical frameworks and practical studies that demonstrate the significance of tying strategy and performance management at all organizational levels. Performance assessment and management in non-governmental organizations help evaluate their impact on outcomes and outputs in addition to serving as a planning tool. It also functions as a crucial tool for internal feedback and learning, though. Thus, it appears to be the primary method for handling and processing information in NGOs successfully, as well as for disseminating it to the relevant parties, including associates, donors, and organizations and communities that are being targeted (Ramadan and Borgonovi, 2015). Since it focuses on how these organizations use performance information in their decision-making framework, performance measurement and management of NGOs is crucial. Implicitly, management and performance evaluation are seen as prerequisites for NGOs' strategic planning with a view to functional advancement. It also has a connection to the budgetary structure used by NGOs because they are perceived as being fundraising-focused. The requirement to demonstrate accountability to key stakeholders as well as transparency makes performance assessment and management crucial in NGOs. Performance measurement has been described in a number of different ways by various authors. Lindblad (2006) defined performance measurement as the use of goals, indicators, and data to evaluate the actions and services of NGOs.

It is viewed as the method for rating workers, teams, and the overall company (Ferreira and Otley, 2009). In a different context, Miller (2007) defines performance measurement as an assessment method that assesses the efficiency and effectiveness of a program's effects. According to Carmon (2007), measuring performance entails using a systematic approach to assessing a program's outputs, inputs, and affects. Of course, acquiring the pertinent and necessary resources for survival is not the only factor to consider when evaluating an NGO's effectiveness. Furthermore, according to Kareithi and Lund (2012), the primary goals of these NGOs are to enhance their local communities and reach as many beneficiaries as possible. As a result, the evaluation of these organizations should focus mostly on how efficient and effective they have been in achieving these specific social goals.

Generally, NGOs set performance metrics to measure their performance, and they then continue to gather data on those indicators. The most frequent performance metrics employed by NGOs include efficiency, effectiveness, cost-benefit analysis, and beneficiary satisfaction (Carman, 2007). Similar to this, Teelken (2008) used efficacy, economy, efficiency, and effectiveness as the four major performance measures to evaluate how well NGOs operate. Additionally, Benjamin and Misra (2006) argue that we should concentrate on the four primary indicators of inputs, outputs, outcomes, and impacts when evaluating the performance of NGOs. Efficiency is the connection between inputs consumed and outcomes produced; Access the electronic version at: <https://ssrn.com/abstract=2803451> www.iiste.org Research Journal of Finance and Accounting Vol. 7, No. 12, 2016 115 ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Effectiveness is viewed as a metric used to assess the extent to which an organization is reaching its stated goals and objectives, nevertheless. Additionally, input indicators monitor project components like staff, funding, and duration, whereas output indicators track the outcomes of the use of a project's inputs, which primarily relate to the number of beneficiaries served and the number of providers in comparison to the program's intended goals. Access, timeliness, availability, and selection offer yet another crucial way to gauge beneficiaries' happiness NGOs performance (Niven, 2008). Impact indicators measure the degree of achieving the entire objective of a project/program for example hospital building, changes in the lives of people, the standard of living, etc. It typically focuses on greater socio-economic development and the long-term repercussions of achieving goals. It outlines all of a program's or intervention's effects on people and the community aside from its immediate targeted recipients. Furthermore, partnership and quality are seen as significant

characteristics that are frequently used to assess how well NGOs work in society, according to Niven (2008). The number of partners, their importance to the field of NGO, and their satisfaction are the main factors considered when assessing partnership quality. Donor happiness, the inventiveness of services, and the use of global quality standards are used to evaluate quality.

The effectiveness of fundraising is regarded as a crucial factor that is frequently brought up when discussing the financial success of NGOs. Funding NGOs' survival is a component of effective fundraising, according to Andreasen and Kotler (2008). It is calculated using the donors' dependency ratio (Epstein and McFarlan, 2011). Lewis (2009) adds that another metric for gauging the effectiveness of fundraising is the resource generation ratio. Other methods of evaluating the effectiveness of fundraising include the cost of fundraising and the response rate to financing proposals (Niven, 2008). There are other indicators that are connected to the financial transparency with NGOs, as proposed by Standards for Charity Accountability of Better Business Bureau Organization, despite employing fundraising efficiency as an indicator of the financial performance of NGOs (2008). It is stated that NGOs make information about their financial performance and operations transparent financial activities available to relevant stakeholders, especially donors. This calls for the preparation of comprehensive, accurate, and timely financial reports and ensuring that they are made accessible to interested parties especially donors.

2.8 Summary

The chapter highlighted the research strategy used by the researcher in conducting the research. Justifications for the choice of the research instruments used by the researcher were also explained. The population under study was also discussed as the sampling technique as well as its justification. Data collection techniques were outlined and justified.

Through the empirical analysis of the related literature and comparison made with the theoretical discussion we can understand and fill the gap of the following:

- Underline and understand the direct relationship of organizational performance and effective and efficient internal audit department within the organizations.
- Independence of internal audit department from organization' top management is a vital issue to the achievement of organizational objectives.

- Continues professional skill development for internal and external auditors are the road map to achieve the objective of the organization and the profession objectives too.
- Utilizing other countries experience related to internal audit efficiency to organizational performance and its objective achievement.

CHAPTER THREE

Research Methodology

3.1 Introduction

The preceding chapter outlined the related literature on the effect of internal audit on organizational performance. The literature was reviewed based on the objectives drawn out in chapter 1. This chapter aims to give an insight of the research design and methodology used by the researcher to collect data to be able to answer the research questions and achieve the objectives of the study stated in previous chapters.

3.2 Research Design

A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Kothari, 2004). Descriptive research is also considered appropriate because subjects are normally observed in their natural set up and can result in accurate and reliable information (Kothari, 2004). This design lends itself to various approaches. A survey in form of standardized questions in a questionnaire was used to collect data. A survey is defined by Zikmund & Babin (2007) as a method of collecting data from people about who they are, how they think (motivations and beliefs) and what they do (behavior).

This study guided by five independent variables: career and advancement, professional competency of internal auditors, quality of audit work, organizational independence, and top management support. It used a cross sectional, descriptive and survey research design with the application of both qualitative and quantitative approaches of data collection. Data were collected using both interview and questionnaire through primary and secondary sources. Finally, the collected data were analyzed using descriptive, qualitative and inferential analysis depending on the situation.

3.3 Research Approach

According to Kothari (2004), many good research projects combine both qualitative and quantitative research. Qualitative data rate from slight to highly significant effect based on qualitative judgments such as perception and attitude of respondents on internal audit performance.

Accordingly, it is the most appropriate method to measure the characteristics for which numerical value cannot be assigned, which are called attributes, and used to find out the facts. Kothari (2004) also describes the importance of quantitative focusing on surveys as follows. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population’. Therefore, the researcher used a mixed research approach to employ for the completion of the study, to generate rich data from multiple sources, which were both quantitative and qualitative type.

3.4 Target Population

The target population for a survey is the entire set of units for which the survey data are used to make implications. Thus, the target population defines those units for which the findings of the survey are meant to be generalized. According to Kothari (2004), a researcher must have a specific population as his research population target upon which he uses to make all his inferences regarding the validity of what he/she is researching on. Therefore, the target population GOAL Ethiopia which have an internal auditor in Addis Ababa.

According to Babbie (2012) target population is the aggregation of elements from which a sample is selected. With a target population of 45, the researcher used internal audit staff, finance department employees, project managers, and other relevant employees. Table 3.1 below shows the target population of GOAL.

Table 1. Summary of Target Population

Population Identity	Size
Internal Audit Staff	6
Finance Department Employees	11
Project Managers	5
Other Employees	23
Total Population	45

Source: Researcher

As far as the total population have minimum size that is 45, the researcher decided to use the whole population as a respondent likely census method. Census is a systematic method that collects and records the data from the whole members of the population.

3.5 Sources of Data

Data sources that used in this study include both primary and secondary sources of data. The study used both primary and secondary data sources gathered to assess the effect of internal auditing practices on GOAL Ethiopia. To achieve the objective of the research, the study was collected primary data from the organization's staff. Besides, secondary sources were also collected from the organization's journals, articles, and other materials related to the performance of auditing written by different authors on the factors affecting auditing performance.

3.6 Methods of Data Collection

3.6.1 Tools of Data Collection

To achieve the objective of the study, the researcher used survey method, that is, both a questionnaire and interview because those tools give the opportunity to probe or ask questions, control the respondent response by designing the questions well properly, increase the reliability and credibility of the research data, and makes a judgment of what most people think through asking the respondent.

3.6.2 Questionnaire Design

For easy understanding and reading, the questionnaire was designed into two parts. The first part of the questionnaire was taken into the consideration of demographic characteristics of the respondents as well as some general information questions. The second part of the questionnaire was required the respondent to rate the factors affecting auditing performance they had to choose or attach to a five pre-defined level scale that strongly disagrees, disagree, neutral, agree, and strongly agree. The aim is to collect the perception of the respondents in response to the performance of internal auditing in the organization.

3.7 Methods of Data Analysis and Presentation

To analysis, the collected data the researcher used descriptive statistics. Descriptive statistics were used to determine the minimum, maximum, mean, and standard deviation. A multiple regression model analysis was used to determine the relative importance of variables. The Data was presented quantitatively using a graph, table, percentage, and histogram and also data presented by qualitatively by using narrations. To conduct this study, the researcher used statistical tools for SPSS software.

3.8 Measures for Reliability and Validity

Reliability and validity are central issues in research (Neuman 2004). They represent the yardsticks by which the qualities of all kinds of research quantitative, qualitative, or participatory are evaluated. The following sections explain how this was done, especially using the questionnaire surveys.

3.8.1 Reliability

The reliability of the results of this study materialized through a particular question relevant for the survey research that gave the same results when applied to different groups or samples. The study used Cronbach's alpha to measure the internal consistency of the research instrument. Cronbach's alpha measures the average of measurable items and its correlation. For this study a reliability co-efficient (Alpha value) of more than 0.7 was assumed to reflect acceptable reliability as recommended by Revelle & McDonald (2006).

3.8.2 Validity

The validity of the results of this study was ensured not only by the consistency of results but also by the quality of the questionnaire that was developed to measure all areas relevant to the research issue. Checking the data's accuracy, and the instruments used, professional opinion sought from seniors, researchers and peers on face, content, and format of the questionnaire. Consultations with these people help the researcher to identify errors and offer the opportunity to modify and improve the instrument. To determine whether the assumptions of the classical linear regression model (CLRM) are valid or not in the model, diagnostic tests are performed. Consequently, the basic CLRM assumptions tested in this research were multicollinearity, heteroskedasticity, normality, and model specification.

3.9 Ethical Consideration

The information which was collected from the respondents was confidential and used only for academic purposes. In addition, the researcher has not mentioned the name of the respondents, be neutral, and not undermines the political, religious, and social attitudes of the respondents.

CHAPTER FOUR

Data Presentation and Analysis

4.1 Introduction

This chapter presents data collected through primary and secondary sources. Primary data sources were collected from the survey questionnaire and analyzed based on the data collected. While on the other hand, secondary data sources were collected from different theoretical and empirical studies of different scholars, academicians, local and international government, and non-government organizations as well as official reports. The responses were presented and analyzed to address the questions raised in the study and meet the objectives of the study- effectiveness of internal audit on organizational performance of non-government organizations: The case study of GOAL Ethiopia. Regarding the research topic, the study assessed respondents using a structured questionnaire using a five (5) scale Likert scale score consisting of (strongly agree, agree, neutral, disagree, and strongly disagree) and the result of the respondent's views and other relevant literature on the area were discussed below.

4.2 Result of the Survey

A total of 45 questionnaires were distributed to Internal Audit Staff (6), Finance Department Employees (11), Project Managers (5), and Other Employees (23) in order to collect data for the research title "Effect of internal audit on organizational performance of non-Government organizations: The case study of GOAL Ethiopia." Out of the questionnaires distributed, a total of 40 (89%) usable responses were obtained (Internal Audit Staff (5), Finance Department Employees (10), Project Managers (4), Other Employees (21)) and 5 (11%) were not returned by the respondents.

4.3 Reliability of Research Tool

Reliability of questionnaire. The reliability of the questionnaire was evaluated using the "Cronbach's alpha" and all the 5 items of the Research questions were considered for the calculation. To measure the reliability of the questionnaire, the researcher applied a preliminary reliability test. According to different statistic books a reliability coefficient exceeding 0.7 for any test or scale was an acceptable reliability coefficient. Therefore, as we can see the (Cronbach's alpha) 0.712 indicates that the questionnaire administered in this study.

Table 2. Reliability Statistics

Case Processing Summary			
		N	%
Cases	Valid	40	100
	Excluded	0	0
	Total	40	100
A. List wise deletion based on all variables in the procedure.			
Reliability Statistics			
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items	
0.712	7.41	4	

4.4 Background Information of the Respondents

Table 3. Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	22	55.0	55.0	55.0
	Female	18	45.0	45.0	100.0
	Total	40	100.0	100.0	

Source: Owen Survey

The above Table 3. shows that from a total of 40 responses obtained, 22 (55%) of the respondents are male and the rest 18 (45%) are female. This shows a plausible and appreciable role of men and women in accounting and auditing roles within the organization.

Table 4. Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30	19	47.5	47.5	47.5
	31-40	15	37.5	37.5	85.0
	41-50	2	5.0	5.0	90.0
	>51	4	10.0	10.0	100.0
	Total	40	100.0	100.0	

Source: Owen Survey

The above Table 4. shows that from a total of 40 responses obtained, 19 (47.5%) respondents are between 21 and 30, 15 (37.5%) respondents are in the age between 31 and 40, and 2 (5%) respondents are between 41 and 50 while the rest 4 (10%) respondents, are above 51 respectively. This shows that most of the respondents are at the expected age for the position they represent.

Table5. Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	19	47.5	47.5	47.5
	Married	20	50.0	50.0	97.5
	Divorced	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: Owen Survey

The study wanted to establish the marital status of respondents in order to find whether their perception differs according to their marital status. It was found that the majority of respondents 20 (50%) were married as shown in Table 5.

Table 6. Educational Background

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College Diploma	2	5.0	5.0	5.0
	First Degree	33	82.5	82.5	87.5
	Master's Degree	5	12.5	12.5	100.0
	Total	40	100.0	100.0	

Source: Owen Survey

The study wanted to establish the education level of respondents in order to find whether their perception differs according to their education level. It was found that the majority of respondents 33(82.5%) had a university degree, 5(12.5%) respondents had a master’s degree, and the rest had a diploma as indicated in Table 6.

Table 7. Work Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 to 10 Years	19	47.5	47.5	47.5
	10 to 15 Years	18	45.0	45.0	92.5
	Over 15 Years	3	7.5	7.5	100.0
	Total	40	100.0	100.0	

Source: Owen Survey

The study wanted to establish the working experience of respondents in order to find whether their perception differs according to their working experience. As indicated in table 7., the findings show that the respondents who worked between 5-10 years were 19(47.5%), 10-15 years were 18(45%), and over 15 years were 3(7.5%).

Table 8. Working Position

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Senior Management Level	8	20.0	20.0	20.0
Middle-Level Management	30	75.0	75.0	95.0
Lower Level	2	5.0	5.0	100.0
Total	40	100.0	100.0	

Source: Owen Survey

The above Table 8. shows the work position of the respondents for which 8 (20%) of the respondents were on senior management level, 30 (75%) were on middle level management and the remain 2 (5%) were on lower-level position.

4.5 Descriptive Analysis of the Factors Affecting Auditing Performance

A descriptive analysis gives the mean and standard deviation of the various variables of interest in the study. It also shows the minimum and maximum values of the variable, which helps you understand the maximum and minimum values that the variable can reach. Table 4.3.1 below shows the average and standard deviation of respondents' opinions on the factors that affect internal audit performance.

Table 9.: Descriptive Statistics of Variables of the Study

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Career Advancement	40	3.00	4.67	4.0500	.52596
Professional Competency	40	3.00	5.00	4.1083	.60571
Quality of Audit Works	40	2.67	5.00	4.2250	.60098
Independence	40	3.33	5.00	4.1417	.45846
Top Management Support	40	2.33	4.67	3.4500	.57264

Table 9. above shows the average and standard deviation of overall expectations for internal audits. High or low averages for the five factors reflect the high or low focus of these variables on overall expectations of internal audit performance for the selected organization in the study. Furthermore, the minimum and maximum standard deviation values indicate that respondents are paying the most and least attention to the overall expectations of internal audit activities within their organization. Also, a standard deviation of less than 1.00 indicates that the respondent's opinion is close, and if the standard deviation is greater than 1.00, the respondent's perception of the factors affecting the performance of internal influence revisions within their organization is significantly different.

4.5.1 Descriptive Analysis of Factors Based on Their Variables for Auditing Performance

Table 10. Descriptive Analysis of the Factors Affecting IA Performance

No	Descriptions	Codes	N	Mean (μ)	Standard Deviation (δ)
1	Internal audit is the stage of internal audit training and preparation in an organization.	S1	40	4.0250	0.9737
2	Internal audit is a stage in the promotion process for internal audit professionals within an organization.	S2	40	4.0250	0.6597
3	Internal audit is considered a stage of career development for internal audit professionals within an organization.	S3	40	4.1000	0.9001
Career and Advancement Mean and Standard Deviation				4.0500	0.52596
4	Internal audit processes enable internal audit staff to participate in training and development programs.	S4	40	3.6000	1.4106
5	Internal audit staff has appropriate skills and experience related to risk identification and planning methods.	S5	40	4.4500	0.6775

6	Internal auditors can cover all organizational processes and activities that are critical to the organization.	S6	40	4.2750	0.7157
Professional Competency Mean and Standard Deviation				4.1083	0.60571
7	The internal audit staff has formal follow-up procedures in place to ensure that the auditee is taking corrective action in accordance with the agreed plan.	S7	40	4.1250	0.9920
8	The internal audit staff prepares effective plans and programs for conducting audit activities for individual audit engagements.	S8	40	4.1750	1.0099
9	The internal audit staff conducts audit activities in accordance with recognized standards, such as the Institute of Internal Auditors (IIA).	S9	40	4.3750	0.6675
Quality of Audit Works Mean and Standard Deviation				4.2250	0.60098
10	The termination of internal audit activities requires the approval of the Chief Internal Audit Officer.	S10	40	4.2500	0.8397
11	Internal auditors are permitted access to all information, records, employees, etc. necessary to make informed decisions in audit engagements.	S11	40	4.0000	1.0622
12	Internal auditors perform audit activities without management intervention.	S12	40	4.1750	0.9842
Independence Mean and Standard Deviation				4.1417	0.45846
13	The number of internal audit staff is limited in light of the scope of audit work planned and due to be completed in the near future.	S13	40	2.9750	1.2504
14	Management is not fully aware of internal audit needs, as reflected in the low budget allocated to the internal audit process.	S14	40	3.8250	0.9306

15	Management does not provide sufficient support and encouragement for the training and development of internal audit staff.	S15	40	3.5500	1.1311
Top Level Management Support Mean and Standard Deviation				3.4500	0.57246

❖ Career and Advancement

Goodwin (2001) found that internal auditors working in an environment with more career opportunities for their organization had fewer opportunities for advancement and were more likely to be promoted than those with a lower level of competence and less commitment to their work. said they put more effort into their work to increase.

Table 10. shows that the highest average score of 4.1000 is for S3. This represents that internal audit is considered a stage of career development for internal audit professionals in the organization, followed by an S2 with an average score of 4.0250. S1, with a similar average score of 4.0250, agreed with the fact that internal audit is a stage of internal audit staff training and preparation in the organization. This illustrates three variables of career and advancement recognized as powerful for the internal audit function.

❖ Professional Competency in internal auditing

This section discusses participants' views of IA competency as a factor influencing IA performance. Therefore, this study examined IA competencies in terms of competencies, experience, effective communication, training and development, and access to information technology perspectives.

Table 10. shows the highest S5 average of 4.4500, indicating that internal auditors have the appropriate skills and experience related to risk identification and planning methodologies that provide high-quality audit performance. Audit skills and experience that enable them to audit all systems of the organization (financial, operational, logistics and IT systems), and respondents agreed that the internal audit process allowed internal audit professionals to participate with a median score of 3.600 with training and development programs that help maintain S4 skills and keep them current in the field. It illustrates all variables of perceived high-performing expertise in relation to internal audit effectiveness in the organization.

❖ Internal audit works quality.

Quality of IA works can be expressed through the inner auditor's workplace and functionality to do their obligation to offer beneficial findings and recommendations (Mihret & Yismaw, 2007; Mihret, 2011). This takes a look at evaluated audit quality from point of view of powerful audit-making plans and supervision (Prawit et al, 2010), IA fieldwork (Ratliff, et al., 1996), locating and reporting, follow-up of IA recommendations, and effective communication with external auditors. Table 10. suggests the very best suggest a rating of 4.1250 through S7 indicating that the auditors' have formal follow-up strategies to test whether or not the auditees are taking corrective movements to rectify the irregularities located through the auditors in keeping with the agreed plan accompanied by S8 with the suggest rating of 4.1750 for which internal auditors put together an effective plan and programs to conduct audit activity for individuals audit assignment, and S9 with a mean rating of 4.3750 depicting that internal auditors conduct their audit activity through getting ready effective plans and program according with the global standards. This suggests all of the variables of the quality of internal audit works are perceived as high performance for internal auditing effectiveness.

❖ Independence

Independence is fundamental to IA effectiveness because IA effectiveness cannot be achieved without the independence of the IA department (Cohen & Sayag, 2010). This section assesses participants' perceptions of IA independence as a factor influencing IA effectiveness. Therefore, this study examined the independence of the IA from the existence of an effective audit committee, the independence of individual internal auditors, and the organizational independence of the IA's functioning perspective.

Table 10. shows that the highest average score for S10 is 4.2500. This indicates that removing an internal auditor from work or position is always approved by the chief internal auditor. S11 was next with an average score of 4.000, giving Internal Audit free access to everything they needed information, records, staff, and S12 have an average score of 4.1750, demonstrating the ability to audit anything an internal auditor would consider independent, and this means conducting audit activities without management interference. Once again, that all three variables are within internal audit, independence is recognized as a key outcome to internal audit effectiveness.

❖ Top-level management support

Management support is a key component in the effectiveness of IA (Tamene et al., 2014; Mihret & Yismaw, 2007; Mihret & Woldeyohannis, 2008). Given that IA activities take place in a dynamic and collaborative environment, internal auditors expect support from top management. In line with SPPIA of 1110 – The independence of internal auditors within the organizations is crucial to Perform audit work effectively.

Internal auditors should be supported by top management and supported by the audited entity (IIA, 2011). Therefore, top management support is also required for effective work performance and to enhance the competence and independence of the IA team.

Table 10. shows the least mean score of 2.9750 by S13 representing that the number of staff in the internal audit process is not proportionate with the load of auditing work available followed by S14 with the highest mean score of 3.8250 for which the Management is not providing enough support and encouragement for training and developing the internal auditors, and S15 with the mean score of 3.5500 indicating that management does not provide enough support and encouragement for training and developing the internal audit staff depicting that management is not sufficiently aware of the need of the internal audit process as it is demonstrated by different factor stated previously. This indicates that the support given by the management towards the internal audit process is not enough which may create dissatisfaction among the internal auditors, which in turn may have its own hostile consequence on the audit performance of the process in particular and the organization at large.

Generally, as it is shown in table 4.7 above the minimum value of items is with a mean score of 2.9750 by S13 with a standard deviation of 1.2504 and the maximum value of the mean is 4.4500 by S5 with a standard deviation of 0.6775 respectively. This above 2.5 mean score indicates that most respondents moderately agree with the factors affecting the audit performance of the selected organization. The above table 4.7 also shows the minimum standard deviation of 0.6597 by S2, which give the highest emphasis by respondents, and the maximum standard deviation of 1.4106 by S4 which give the least consideration by respondents on internal auditing performance.

4.5.2 Descriptive Analysis Based on Factors Affecting IA

Table 10. shows the means and standard deviations for the independent variables (career and promotion, professional competence, quality of test performance, independence, and support from top management) for 15 items on a 5-point Likert scale. Therefore, with a mean of 4.2250 for professional ability and a standard deviation of 0.60098, followed by independence (M=4.1417;

S.D=0.45846), quality of audit work (M = 4.1083 SD = 0.60571), Career and advancement (M=4.0500, S.D=0.52596).), and top-level management support (M = 3.4500and SD = 0.57246). This illustrates the factors, other than management support, which are perceived to have high internal audit effectiveness in the organization.

Finally, with a mean above 2.5 for all 15 items, it can be said that most respondents agreed with the question regarding the factors that affect internal audit performance. Besides, the standard deviation of all the five factors of internal auditing performance is less than 0.60571 indicating that respondents' perception of internal audit performance was close to each other with the least standard deviation of 0.45846 by independency for IA.

The interview results of the administrative body and internal auditors indicate the importance of internal auditing to the performance of the organization by protecting against fraud and misleading, regulating the rules and procedures, enabling to correct errors at a time, and helping to follow up operations and reduce risk. They added that the factors affecting internal auditing include timing of auditing, independency, skill, and capacity of auditors, effectiveness, and efficiency of the auditing procedures, acceptance of the auditors' findings, employees' perception towards auditing, volume transactions, policies, and management styles of the organization.

Furthermore, the opportunities of internal auditing such as the finding of errors at a spot, respecting given to discipline, the discipline of Auditing, having a clear work manual, and reporting daily. On the other hand, the main challenge of internal auditing includes the perception of Employees, confidence of Auditors, valuation of the rules and regulations of the organization and General accepted accounting principles (GAAP), reliability of the financial report, compliance with the rules and regulations, less work experience of Auditors, low skilled internal auditor, lack of training to internal auditors and the dependency of internal auditors on branch managers. In addition, internal auditors responded to major internal control challenges, including inadequate audit team training, inconsistent staff attitudes toward internal auditors, and slow resolution of discrepancies.

4.5.3 Correlation Analysis and Discussion

Correlation analysis is a statistical tool which is used to measure the strength or degree of linear association between two variables. The correlation coefficient, which always lies between -1

and+1 was used to measure the strength and magnitude or degree of linear association between two variables. A correlation coefficient of +1 shows a strong and positive linear relationship between two variables. On the contrary, a correlation coefficient of -1 indicates a strong and negative linear association between two series. A correlation coefficient of 0 shows that there no linear relationship between two variables. The result of correlation analysis is discussed in detail as follows:

Table 11. Correlation Analysis of the Factors Affecting IA Performance

		Audit Performance
Audit Performance	Pearson Correlation	1
	Sig. (2-tailed)	
Career and Advancement	Pearson Correlation	.570**
	Sig. (2-tailed)	.000
Professional Competency	Pearson Correlation	.577**
	Sig. (2-tailed)	.000
Quality of Audit Works	Pearson Correlation	.462**
	Sig. (2-tailed)	.003
Independency	Pearson Correlation	.315*
	Sig. (2-tailed)	.047
Top-Level Management Support	Pearson Correlation	.477**
	Sig. (2-tailed)	.002

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

In Table 11. above, the five factors which serve as antecedent to internal audit performance show different correlation coefficients. The highest correlation is (.577) between professional competency and internal audit performance followed by the correlation between career and advancement (.570), top level management support (.477), quality of audit works (.462) and independency (.315). Moreover, the significant level of each factors designates the correlations are significant at $P < 0.001$ (2-tailed), which shows there is a significant positive relationship between

all the factors and the internal audit performance in the organization. This indicates there is strongly and significant positive relationship between the factors affecting and internal audit performance. Even though all these correlations show positive and strong relationship, it shows that the strengths of the relationships vary. Thus, the factors affecting internal auditing practice vary in the degree to which they determine internal auditing performance.

4.6 Multiple Regression Analysis

The study employed multiple regression models in the form of ordinary least square (OLS) and used a cross-sectional data. The researcher undertook the diagnostic tests for the assumption of classical linear regression model (CLRM) before directly going to the multiple linear regression models.

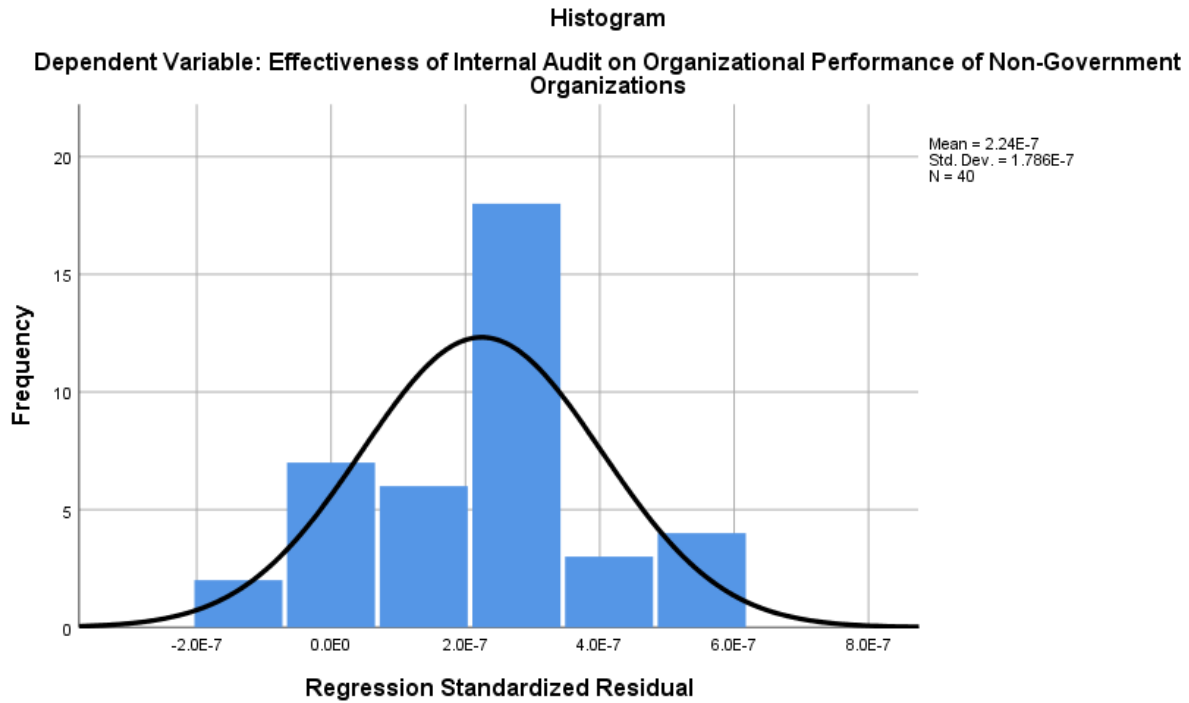
4.6.1 Results for Test of Classical linear Regression Model (CLRM) Assumptions

Diagnostic test is made to make sure that the classical linear regression model assumption violated or not. In this study an attempt is made to test normality and multi-collinearity the result of which are presented and discussed as follows.

4.6.1.1 Test for Normality

The last diagnostic test for CLRM assumption of normality assumption was tested by this study. The assumption says that disturbances are normally distributed. Frequency distributions come in many different shapes and sizes. It is quite important, therefore, to have some general descriptions for common types of distributions. In an ideal world our data would be distributed symmetrically around the center of all scores. As such, if we drew a vertical line through the center of the distribution then it should look the same on both sides. This is known as a normal distribution and is characterized by the bell-shaped curve. This shape basically implies that the majority of scores lie around the center of the distribution (so the largest bars on the histogram are all around the central value). The following figure shows the result of normality test with regard to the data conducted.

Figure 2: The result of normality test



4.7 Multiple Regression Output and its Discussion

In this study, multiple regression analysis was carried out to get the predictive value of the variables considered. This was basically made to determine the linear combination of the constructs. The dependent variable of the study is audit performance (AP) and independent variables are career and advancement (CA), professional competency (PC), quality of audit works (QA), independency (ID) and top-level management support (TS).

$$(AP). LRct = \beta_0 + \beta_1CAAt + \beta_2PCAt + \beta_3QARt + \beta_4IDt + \beta_5TSt + c$$

Table 12: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000 ^a	1.000	1.000	.00000

a. Predictors: (Constant), Top Management Support, Internal Audit Works Quality, Professional Competency in Internal Auditing, Independence, Career Advancement

b. Dependent Variable: Audit Performance

Table 13: Result of ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.821	5	.564	.	. ^b

Residual	.000	34	.000		
Total	2.821	39			

The regression model output was presented in below table 12. and it shows the coefficients, standard errors, t-values, and p-values for explanatory variables. The overall summary of the model is presented in the above table 13. This implies the R-squared, adjusted R-squared and standard error of the estimates. The ANOVA result table shows F-statistics and probability (Fstatistics) for the regression. The R-squared and Adjusted R-squared statistic of the model were 68.3% and 64% respectively.

The explanatory power of independent variables such as amount before audit, amount after audit, audit tax resources, capacity of the auditors, audit case selection, protection of revenue and tax automation, on the change in dependent variable (revenue collection performance) was explained 68.3%. The result of Adjusted R-squared shows that change on dependent variable (RC) was explained was explained 64% by the independent variables employed in the study. Therefore, 31.7% of change on dependent variable (RC) was explained by other factors which are not included in the model. The null hypothesis of F-statistic (the overall test of significance) which says the Adjusted R-squared is equal to zero was rejected at 1% significance level. F-value of 0.000 shows strong statistical significance which enhanced the reliability and validity of the model.

CHAPTER FIVE

Summary, Conclusions, and Recommendations

5.1 Introduction

Since the internal audit is an independent and objective assurance and advisory function designed to add value and improve an organization's operations, issues such as effectively performing this role are more important than ever and have become important. The recent global financial crisis has undermined internal audit, both in its traditional role of overseeing compliance with internal controls and financial integrity and in its more recent self-proclaimed role as an integral part of the risk management culture within the organization. It is clear that effective internal audit helps organizations, especially NGOs, to achieve their goals by adopting a systematic and disciplined approach to assessing and improving organizational performance.

5.2 Conclusions

The purpose of this study was to examine the impact of internal audit performance by sampling the internal audit performance of Non-Government Organizations, particularly the case study of GOAL Ethiopia. So, the conclusion is:

- The demographic profile of the respondents indicates that the majority are married men between the ages of 21 and 30 and are in middle-level management positions with higher than five years of experience.
- Having a standardized guideline that is periodically revised so as to cope with the current changes that may exist in the field of internal auditing is a cornerstone as far as conducting an effective audit is concerned. The survey data has shown that the majority of the auditors know the guideline prepared in accordance with the international standards once they are appointed for the position which is now lacking detailed steps and necessary periodic revisions. It can be concluded that there is a positive understanding among the auditors for having a standardized guideline that is periodically revised and if successive work is done with this regard probably better results can be registered in producing quality audit work as well as reports to enhance the performance of the organization.
- Auditors adhere to the policies of the internal audit process but are somewhat incapable of implementing regular quality assurance and improvement programs as described in the policies of the process. This is one of the pillars of effective audit performance in

organization. We also conclude that the activities of the internal audit process in each unit of study are of a more traditional type, emphasizing compliance, finance, and regularity, rather than being related to the value-added nature of the audits. Additionally, GOAL Ethiopia is not at much greater risk as most of the findings identified so far are minor and minor findings to improve organizational performance perceived by senior officials.

- The study also investigated the effects of internal auditors' career and advancement opportunities, professional competence as measured by the required education, training, experience, and professional qualifications, audit work quality, the organizational independence of internal auditors, and top management support as moderate and above perceptions of internal auditor performance.
- According to the descriptive analysis of the variables influencing internal auditing performance, career and advancement, professional competency, the qualification of audit work, and top management support for internal auditing are all factors influencing the efficiency of internal audit activity in the study area. Independence followed by top management support, career, and advancement opportunities (on average percent), the quality of audit work, and professional competency is identified to be the key factors that positively affect the performance of audit activities in the study area among the defined variables.
- On the other hand, it may be inferred that internal auditors do not know benefit from organizational independence in their day-to-day audit work activities. This was one of the variables that were established to determine whether it is influencing the performance of audit activity in the study areas.
- The results of the interviews of both administrative bodies and internal auditors reflect major opportunities including a large number of higher education institutions for career advancement and employee promotion, policy availability, and learning experience assistance for the best industry performers. on the other hand, internal auditing involves major issues insufficient efficiency and effectiveness of audit work, correction of discrepancies, lack of stable and qualified auditors, employees and misperception of management in relation to internal audit work, insufficient training of auditors, insufficient awareness of employees about the importance of internal audit, the lack of experience and support of internal auditors, misunderstanding between internal auditors and managers, an

obstacle to reporting without referral to higher management bodies, absent replacing turnover of internal auditors with time, lack of career and promotion over time for internal auditors.

- Correlation analysis shows that there is a strong and significant positive relationship between five factors: senior management support, independence, career, and promotion, Quality of audit work, and professional competence and conduct of an internal audit of the organization.

5.3 Recommendations

From the data analyzed and research findings, the researcher arrived at the following main recommendation:

- Several approaches are required to produce an effective internal audit report in an organization and especially in the internal audit process. There is no single approach, probably completely and cost-effectively solve internal audit activities in the researched area since then has several reasons that can greatly affect it.
- The internal audit process guideline does not have a periodic review, which prevents these incorporate new changes published by the Institute of Internal Auditors (IIA). it is better for the organization to prepare management according to international standards, as well as adaptation of the guideline to the existing system so that it contains more detailed steps that are convenient for performing an effective audit in the organization.
- High-quality audit work is arguably a function of effective management and an extensive staff examination; periodic reviews of internal audit activities by international committee auditors (CIA) or other competent audit professionals; the internal audit process should make every effort to revise the existing guideline in a way that assists auditors by including the necessary detailed step and taking advantage of the above facts for conducting an efficient and quality audit for auditees.
- Auditors should be free from management interference, and bias, well equipped both academically and materially, to maintain the professionalism of internal auditors through continuous training and education, monitor the correction of discrepancies, harmonious relations with all employees, regardless of their positions, and training well-organized audit work in accordance with the organization's procedure.

- Audit reports should send to the concerned bodies and rectification of auditing findings should finish on time for effective and efficient operation of the internal auditing activities.
- Effective internal auditing can be done when internal auditors have more organizational capacity and opportunities for career growth and training in internal audit processes, more independence, gain greater recognition from employees as well as the governing body, and more senior management support, so the organization should make available career and promotion opportunities and independence for internal auditors improving the quality and productivity of internal audit.

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APPENDICES

APPENDIX –I: questionnaires and Interview Questions

1. Questionnaires

Dear Respondents,

I am an accounting and auditing master student in Addis Ababa University. This questionnaire is designed to collect data to assess the effect of internal audit on organizational performance in GOAL Ethiopia. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. Your participation in facilitating this study will be highly appreciated. Kindly tick (X) in the space provided with the correct answer or supply the required information where, required, please specify, and elaborate.

With best wishes,

Thank you very much for your cooperation and time!

Section- I: Demographic characteristics of respondents

1. Sex: Male _____ Female _____ .
2. Age: 21-30 years _____ 31- 40 years _____ .
41 – 50 years _____ Above 50 years _____ .
3. Marital Status: Single _____ Married _____ .
Divorced _____ Widowed _____ .
4. Educational Background: College Diploma (TVET) _____ .
First degree _____ Master's degree _____ above Master's degree _____ .
5. Working Experience: Less than 5 years _____ 5 to 10 years _____ .
10 to 15 years _____ Over 15 years _____ .
6. Current position in your organization _____ .

Section-II: Perception Check List

Questions related to different determinant factors expected to affect audit activity.

Strongly disagree = 1, Disagree = 2, Neutral = 3, Agree = 4 and Strongly Agree = 5

	Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I	Career & Advancement					
1	Internal audit is the stage of internal audit training and preparation in an organization.					
2	Internal audit is a stage in the promotion process for internal audit professionals within an organization.					
3	Internal audit is considered a stage of career development for internal audit professionals within an organization.					
II	Professional competency					
4	Internal audit processes enable internal audit staff to participate in training and development programs.					
5	Internal audit staff has appropriate skills and experience related to risk identification and planning methods.					
6	Internal auditors can cover all organizational processes and					

	activities that are critical to the organization.					
III	Quality of audit work					
7	The internal audit staff has formal follow-up procedures in place to ensure that the auditee is taking corrective action in accordance with the agreed plan.					
8	The internal audit staff prepares effective plans and programs for conducting audit activities for individual audit engagements.					
9	The internal audit staff conducts audit activities in accordance with recognized standards, such as the Institute of Internal Auditors (IIA).					
IV	Independency					
10	The termination of internal audit activities requires the approval of the Chief Internal Audit Officer.					
11	Internal auditors are permitted access to all information, records, employees, etc. necessary to make informed decisions in audit engagements.					
12	Internal auditors perform audit activities without management intervention.					
V	Top level management support					

13	The number of internal audit staff is limited in light of the scope of audit work planned and due to be completed in the near future.					
14	Management is not fully aware of internal audit needs, as reflected in the low budget allocated to the internal audit process.					
15	Management does not provide sufficient support and encouragement for the training and development of internal audit staff.					
VI	Audit Performance					
16	Overall agreement on internal auditing performance in the organization.					

Thanks for giving such important information by devoting your time and energy!!!

2. Interview

❖ Interview Questions for Internal Auditors

1. Do you think that internal auditing is vital for your organization?

Yes _____ No _____ .

2. Do employees support the activities of auditing in your organization? What about the administrative bodies?

3. What are the main factors affecting the auditing performance of your organization?

4. What are the main challenges and opportunities of Auditing performance of your organization?

5. How do you evaluate the auditing performance of your organization?

6. Do you have any possible solution for the problems and challenges occur during the auditing activity?

7. Do you have a strategy to improve the auditing performance of your organization?

8. Any comments (if any)

❖ Interview Questions for organizations' administrative bodies

1. Do you think that internal auditing importance for your organization? How?

Yes _____ No _____ .

2. What are the main factors affecting auditing performance for your organization?

3. Do you support the internal auditing activities in your organization? Why or why not?

Yes _____ No _____ .

4. What are the main challenges and opportunities of Auditing performance of your organization?

5. How do you evaluate the internal auditing performance of your organization?

6. Do you have any possible solution for the problems and challenges occur during the auditing

activity?

7. Do you have strategy to improve the auditing performance of your organization?

8. Any comments (if any)

Thanks for giving such important information by devoting your time and energy!!!

APPENDIX –II: Correlation Analysis of the Factors Affecting Internal Auditing Performance

Correlations

		Audit Performance	Career and Advancement	Professional Competency	Quality of Audit Works	Independ ency	Top-Level Management Support
Audit Performance	Pearson Correlation	1	.570**	.577**	.462**	.315*	.477**
	Sig. (2-tailed)		.000	.000	.003	.047	.002
	N	40	40	40	40	40	40
Career and Advancement	Pearson Correlation	.570**	1	.367*	-.226	-.030	.292
	Sig. (2-tailed)	.000		.020	.161	.854	.067
	N	40	40	40	40	40	40
Professional Competency	Pearson Correlation	.577**	.367*	1	.088	-.108	-.046
	Sig. (2-tailed)	.000	.020		.590	.507	.780
	N	40	40	40	40	40	40
Quality of Audit Works	Pearson Correlation	.462**	-.226	.088	1	.192	-.004
	Sig. (2-tailed)	.003	.161	.590		.236	.982
	N	40	40	40	40	40	40
Independency	Pearson Correlation	.315*	-.030	-.108	.192	1	-.119
	Sig. (2-tailed)	.047	.854	.507	.236		.465
	N	40	40	40	40	40	40
Top-Level Management Support	Pearson Correlation	.477**	.292	-.046	-.004	-.119	1
	Sig. (2-tailed)	.002	.067	.780	.982	.465	
	N	40	40	40	40	40	40

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).