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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

THE EFFECT OF INTERNAL AUDITING PRACTICES IN ENHANCING FINANCIAL
ACCOUNTABILITY: THE CASE OF SELECTED FOAM MANUFACTURING FIRMS IN
ADDIS ABABA

BY
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AUDITING (MSC)

ADVISER
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Statement of Declaration

I, Sisay Tadesse, declare that this research project is my original work and has been conducted under the guidance and supervision of Dr. Degefe Duressa. To the best of my knowledge, this study has not been submitted, in whole or in part, for the award of any degree or diploma at this or any other university.

All sources of information used in this research have been properly cited and referenced in accordance with academic standards.

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Approval by the Board of Examiners

This research project entitled “The Effect of Internal Auditing Practices in Enhancing Financial Accountability: The Case of Selected Foam Manufacturing Firms in Addis Ababa, prepared by Sisay Tadesse, has been examined and approved as meeting the requirements for partial fulfillment of the Master of Science (MSc) degree in Accounting and Auditing at the College of Business and Economics, Addis Ababa University.

The Board of Examiners confirms that the study satisfies the required academic standards in terms of originality, quality, and scholarly contribution.

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Acronyms

AABE – Accounting and Auditing Board of Ethiopia

COSO – Committee of Sponsoring Organizations of the Treadway Commission

FDRE – Federal Democratic Republic of Ethiopia

IIA – Institute of Internal Auditors

IA- Internal Audit

IPPF – International Professional Practices Framework

ISA – International Standards on Auditing

IT – Information Technology

PLC – Private Limited Company

SPSS – Statistical Package for the Social Sciences

VIF-Variance Inflation Factor

Abstract

This study examines the effect of internal auditing practices on financial accountability in foam manufacturing firms in Addis Ababa, with particular emphasis on audit structure and Auditor independence, audit frequency and scope, auditor competency, audit tools and technology, and the implementation of audit recommendations. Guided by agency theory and control theory, the study employed a mixed-methods research design, collecting quantitative data from 76 internal auditors, finance officers, and managers through structured questionnaires and qualitative data through semi-structured interviews. Quantitative data were analyzed using descriptive statistics, correlation analysis, and multiple regression analysis with SPSS version 27.0.1, while qualitative data were analyzed using thematic analysis. The findings reveal that the implementation of audit recommendations has a strong and statistically significant positive effect on financial accountability, whereas other internal auditing dimensions exhibit positive but statistically insignificant effects. The study concludes that financial accountability is enhanced primarily through effective follow-up and implementation of audit findings rather than the mere existence of audit structures or audit resources, and it recommends that management strengthen mechanisms for timely implementation and monitoring of internal audit recommendations to improve financial accountability in the firm.

Keywords: Internal Auditing, Financial Accountability, Foam Manufacturing, Addis Ababa.

CHAPTER ONE

1. INTRODUCTION

This chapter presents an overview of the research to familiarize readers with the subject area and context of the study. It begins by outlining the background of the study, followed by a brief description of the organizational context. The chapter then discusses the problem statement that motivated the research and formulates the research questions. Subsequently, it outlines the general objectives of the study and explains its significance. The scope of the research is also defined, and the chapter concludes with a brief description of the structure of the paper.

1.1 Background of the Study

Internal auditing is a fundamental element of sound corporate governance, contributing to financial accountability, transparency, and organizational effectiveness. Over time, the internal audit function has evolved from a narrow focus on compliance and verification into a broader role that supports risk management, internal control evaluation, and value creation. The Institute of Internal Auditors defines internal auditing as an independent and objective assurance and consulting activity designed to improve organizational operations and assist in achieving strategic objectives (IIA, 2023).

In Ethiopia, the development of internal auditing has been influenced by public financial management reforms and the gradual adoption of international accounting and auditing standards. The institutionalization of internal audit practices began with early financial control directives issued in the 1940s and was later strengthened through the establishment of formal audit institutions and standardized internal audit manuals developed by the Ministry of Finance. These manuals incorporate ethical principles and procedural guidance that are largely consistent with International Professional Practices Frameworks issued by the Institute of Internal Auditors.

Empirical studies conducted in Ethiopia highlight the growing importance of internal auditing in promoting financial accountability. Research focusing on public sector institutions has found that internal audit effectiveness is strongly associated with auditor competence, organizational independence, management support, and the implementation of audit recommendations (Tesfaye,

2019; Mekonnen, 2020; Solomon, 2021). Similarly, studies in the banking sector report that effective internal audit functions enhance the reliability of financial reporting and strengthen internal control systems, particularly where auditors possess adequate professional qualifications and operate independently from management influence (Alemu, 2018).

Despite these empirical contributions, the focus of existing studies has largely been confined to public institutions and financial organizations. Limited attention has been given to private manufacturing sectors, where operational complexity and financial risk profiles differ significantly. Foam manufacturing firms in Addis Ababa, for example, manage resource-intensive production processes, extensive inventory systems, and high-value financial transactions related to raw materials and distribution. These characteristics increase exposure to inefficiencies, wastage, weak cost control, and potential financial irregularities.

Although many foam manufacturing firms have established internal audit units, practical observations suggest that these functions often operate under constraints such as limited independence, inadequate staffing, insufficient resources, and weak management responsiveness to audit findings. As a result, the expected contribution of internal auditing to financial accountability may not be fully realized within the sector.

Given the economic significance of foam manufacturing in Addis Ababa and the limited empirical evidence addressing internal auditing practices in this context, there is a clear need for firm-specific investigation. This study therefore examines the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa, with the aim of filling the existing empirical gap and providing evidence-based insights to strengthen governance and accountability in the manufacturing sector.

1.2 Statement of the Problem

Internal auditing is widely recognized as a critical governance mechanism for enhancing financial accountability, strengthening internal control systems, and promoting transparency within organizations. Globally, effective internal auditing has been shown to improve the reliability of financial reporting, reduce the risk of fraud, and support informed managerial decision-making, particularly when auditors operate with independence, professional competence, and strong

management support (Mihret & Yismaw, 2007; Alzeban & Gwilliam, 2014). As a result, internal auditing has become an essential component of corporate governance frameworks in both public and private sector organizations.

Despite its recognized importance, empirical evidence indicates that many organizations—especially in developing economies—continue to experience significant challenges in achieving financial accountability. Studies show that internal audit functions in manufacturing firms often face constraints such as limited independence, inadequate audit scope, insufficient use of audit tools and technology, and weak implementation of audit recommendations. These challenges reduce the effect of internal auditing and expose organizations to financial mismanagement, inefficiencies, and fraud risks (Arena & Azzone, 2009; Mihret & Grant, 2017).

In the context of manufacturing firms, financial accountability is particularly critical due to the capital-intensive nature of operations, complex procurement and production processes, and high exposure to financial and operational risks. Manufacturing firms require strong internal audit systems to ensure that financial resources are properly utilized, transactions are accurately recorded, and organizational policies and regulatory requirements are complied with. However, empirical studies suggest that internal audit practices in many manufacturing organizations remain compliance-oriented, with limited strategic contribution to accountability and risk management (Al-Twajry, Brierley, & Gwilliam, 2003).

In Ethiopia, the manufacturing sector—including foam manufacturing firms—has expanded in recent years as part of the country’s industrialization strategy. While this growth has contributed to employment creation and economic development, evidence indicates that internal control and financial accountability systems in private manufacturing firms remain underdeveloped. Internal audit units often lack sufficient authority, resources, and management support, and audit findings are not consistently implemented, thereby weakening financial accountability and governance (World Bank, 2020; Tesfaye, 2018).

Furthermore, most empirical studies on internal auditing and financial accountability in Ethiopia have focused on public institutions, financial institutions, and state-owned enterprises. There is limited empirical evidence on the effectiveness of internal auditing practices in private

manufacturing firms, particularly foam manufacturing firms operating in Addis Ababa. This lack of sector-specific evidence creates a research gap, making it difficult for managers and policymakers to design effective audit and accountability mechanisms tailored to this industry.

Therefore, the problem addressed by this study is the limited empirical understanding of how internal auditing practices affect financial accountability in foam manufacturing firms in Addis Ababa. Specifically, there is insufficient evidence on the extent to which audit structure and independence, audit frequency and scope, auditor competence, audit tools and technology, and the implementation of audit recommendations contribute to enhancing financial accountability in this sector. Addressing this gap is essential for improving governance, strengthening internal control systems, and promoting sustainable organizational performance in foam manufacturing firms.

1.3 Research Questions

This study seeks to answer the following questions:

1. How do internal audit structure and independence influence financial accountability in foam manufacturing firms in Addis Ababa?
2. How do the scope and frequency of audits affect financial accountability in these firms?
3. What is the effect of auditor competence on financial accountability in these firms?
4. How does the use of audit tools and technology influence financial accountability in these firms?
5. To what extent does the implementation of audit recommendations enhance financial accountability in these firms?
6. What are the main challenges hindering the effectiveness of internal auditing practices in these firms?

1.4 Hypotheses of the Study

Based on the research objectives, conceptual framework, and prior empirical evidence, this study examines how internal auditing practices influence financial accountability in foam manufacturing firms in Addis Ababa. Previous studies indicate that effective internal auditing enhances transparency, strengthens internal controls, and improves financial accountability. Key determinants include audit structure and independence, audit scope and frequency, auditor

competence, use of audit tools and technology, and implementation of audit recommendations (Mihret & Yismaw, 2007; Cohen & Sayag, 2010; Alzeban & Gwilliam, 2014; Sarens & Van den Berg, 2021; IIA, 2023; Haile, 2022).

Accordingly, the study tests the following hypotheses:

H1: Audit structure and auditor independence jointly have a positive influence on financial accountability in foam manufacturing firms in Addis Ababa.

H2: Audit scope and frequency positively influence financial accountability in foam manufacturing firms in Addis Ababa.

H3: Auditor competence positively influences financial accountability in foam manufacturing firms in Addis Ababa.

H4: Use of audit tools and technology positively influences financial accountability in foam manufacturing firms in Addis Ababa.

H5: Implementation of audit recommendations positively influences financial accountability in foam manufacturing firms in Addis Ababa.

1.5 Objectives of the Study

1.5.1 General Objective

The general objective of this study is to examine the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa.

1.5.2 Specific Objectives

The specific objectives of the study are to:

1. Assess the structure and Auditor independence of internal audit functions in foam manufacturing firms in Addis Ababa.
2. Examine the scope and frequency of internal audits in evaluating financial activities and reporting processes.
3. Evaluate the competence of internal auditors in enhancing audit effectiveness.
4. Investigate the use of audit tools and technology in supporting internal audit functions.

5. Determine the extent to which the implementation of audit recommendations influences financial accountability.
6. Identify the major challenges that hinder the effectiveness of internal auditing practices in these firms.

1.6 Significance of the Study

This study is significant at academic, managerial, and policy levels. Academically, it contributes to the existing body of knowledge by providing empirical evidence on internal auditing practices within Ethiopia's foam manufacturing industry, a sector that has received limited scholarly attention. The findings help bridge the gap between internal audit theory and practice in private manufacturing firms.

From a managerial perspective, the study offers practical insights for managers, internal auditors, and finance professionals on how effective internal auditing practices can enhance financial accountability, strengthen internal controls, and reduce financial irregularities. The results may assist firms in improving audit structures, resource allocation, and management support for internal audit functions.

At the policy level, the study provides useful information for regulators and oversight bodies, such as the Ministry of Finance and the Accounting and Auditing Board of Ethiopia (AABE), to support the formulation and enforcement of policies aimed at strengthening corporate governance and financial accountability in the manufacturing sector

1.7 Scope of the Study

1.7.1 Geographical and Institutional Scope

This study is geographically limited to selected foam manufacturing firms in Addis Ababa. Specifically, it includes ten out of twelve firms in the area: Addis Ababa Plastic and Foam Manufacturing PLC, Kangaro Foam PLC, Hundi Ket Foam and Plastic Manufacturing PLC, Royal Business Group (Foam Industry), Mieyona Manufacturing Foam PLC, New Flower General Business PLC (Foam Industry), Rainbow Foam PLC, Maleda Foam PLC, Amaga Foam PLC, and Ahamad Foam PLC. Addis Ababa was selected due to its high concentration of foam manufacturing firms and the availability of audit and financial data.

1.7.2 Conceptual Scope

Conceptually, the study focuses on examining the effect of internal auditing practices on financial accountability within the selected foam manufacturing firms. In line with the conceptual framework, the study is limited to key dimensions of internal auditing practices, namely audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, and the implementation of audit recommendations. These dimensions are analyzed in relation to their influence on financial accountability.

1.7.3 Population Scope

The target population of the study includes internal auditors, finance officers, production managers, operations managers, and general managers working in the selected firms. These groups were chosen because of their direct involvement in internal audit activities, financial management, and internal control systems, making them appropriate sources of relevant data for the study.

1.8 Methodological Scope of the Study

This study adopted a mixed-methods research approach, integrating both quantitative and qualitative methods, to comprehensively assess the effectiveness of internal auditing practices in enhancing financial accountability in selected foam manufacturing firms operating in Addis Ababa.

Research Design a descriptive and explanatory research design was employed. The descriptive design was used to assess the existing internal auditing practices within the selected firms, while the explanatory design aimed to examine the effect of internal auditing practices on financial accountability.

Quantitative Method The quantitative approach constituted the primary method of the study. Primary data were collected through structured questionnaires developed based on the study's conceptual framework and hypotheses. The questionnaires addressed key internal auditing dimensions—audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, and implementation of audit recommendations—as well as financial accountability.

The quantitative data were collected from internal auditors, finance officers, production managers, operations managers, and general managers of the selected firms. Data analysis was conducted using SPSS version 27.0.1, applying descriptive statistics (frequency, percentage, mean, and standard deviation) and inferential statistics, particularly correlation and multiple regression analysis, to test the study hypotheses.

Qualitative Method:-To supplement the quantitative findings, a qualitative approach was also employed. Semi-structured interviews were conducted with selected senior managers and internal audit heads to obtain in-depth insights into internal auditing practices, implementation challenges, and the use of audit findings in managerial decision-making. The qualitative data helped to clarify and explain the quantitative results, especially regarding contextual factors such as management support and organizational practices.

1.9 Organization of the Research Project

The research project was organized into five chapters. Chapter One presents the background of the study and clearly outlines the statement of the problem, research questions, objectives, hypotheses, significance, and scope of the study. Chapter Two provides a comprehensive review of relevant theoretical and empirical literature on internal auditing and financial accountability and develops the conceptual framework that guides the study. Chapter Three describes the research methodology, including the research design, target population, sampling techniques, data collection instruments, methods of data analysis, and ethical considerations. Chapter Four presents the analysis and discussion of the research findings using appropriate quantitative and qualitative techniques in line with the study objectives and hypotheses. Finally, Chapter Five summarizes the major findings of the study and presents conclusions and practical recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter reviews relevant theoretical, empirical, and conceptual literature related to internal auditing and financial accountability. It begins by discussing the key theories that underpin the role of internal auditing in enhancing financial accountability, followed by a review of empirical studies conducted in similar contexts. The chapter also presents the conceptual framework guiding the study and identifies gaps in the existing literature that justify the need for the current research.

2.1 Theoretical Literature Review

2.1.1 Concept of Internal Auditing

Internal auditing is an independent and objective assurance and consulting activity that aims to add value and improve organizational performance by systematically evaluating and enhancing risk management, internal control, and governance processes (Institute of Internal Auditors [IIA], 2023). Unlike external auditing, which primarily focuses on verifying the fairness of financial statements, internal auditing has a broader organizational mandate that encompasses operational efficiency, regulatory compliance, risk management, and the promotion of accountability.

Over time, the internal audit function has transformed from a traditional compliance-based role into a strategic, value-adding activity. Contemporary internal auditing supports management and governing bodies by identifying control weaknesses, assessing risks, and recommending improvements that strengthen financial discipline and accountability (Whittington & Pany, 2008; Chambers & Odar, 2015).

In manufacturing organizations—particularly industries characterized by complex production processes and high-value inputs such as foam manufacturing—internal auditing plays a vital role

in safeguarding assets, controlling costs, ensuring efficient resource utilization, and enhancing financial accountability.

2.1.2 Effectiveness of Internal Auditing

Internal audit effectiveness refers to the extent to which the audit function successfully achieves its intended objectives, including strengthening internal controls, improving risk management, and promoting financial accountability. An internal audit function is considered effective when it operates independently, is staffed with competent professionals, follows systematic audit procedures, and when its recommendations are implemented by management (Mihret & Yismaw, 2007).

Effective internal auditing contributes to financial accountability by ensuring that financial transactions are properly authorized, accurately recorded, and transparently reported. Through continuous evaluation of internal control systems, internal auditors reduce the likelihood of fraud, errors, and misuse of organizational resources, thereby improving the reliability of financial information for decision-making (Alzeban & Gwilliam, 2014).

Empirical evidence consistently shows that organizations with strong and effective internal audit functions demonstrate higher levels of accountability, improved governance, and stronger financial controls than those without such functions (Belay, 2018).

2.1.3 Internal Audit Charter and Financial Accountability

The internal audit charter is a formal document that defines the purpose, authority, responsibilities, and scope of the internal audit function within an organization. According to the IIA (2024), the charter establishes the organizational position of internal auditing, grants unrestricted access to records and personnel, and outlines reporting responsibilities.

A clearly articulated and formally approved internal audit charter enhances financial accountability by safeguarding auditor independence and clarifying functional relationships. When internal auditors operate under a well-defined charter, their findings carry greater credibility and authority, increasing the likelihood that management will act on audit recommendations. This strengthens internal control systems and promotes transparency and accountability (Mihret & Yismaw, 2007).

2.1.4 Independence, Objectivity, and Accountability Outcomes

Independence and objectivity are fundamental principles of effective internal auditing. Independence refers to freedom from conditions that compromise the ability of internal auditors to perform their duties impartially, while objectivity relates to unbiased professional judgment (IIA, 2024).

Organizational independence—particularly when internal auditors report functionally to the board of directors or audit committee rather than to management—enhances the credibility of audit findings. Independent internal auditors are better positioned to identify financial irregularities, challenge weak controls, and report deficiencies without fear of undue influence, thereby promoting transparency and financial accountability (Mihret & Yismaw, 2007).

2.1.5 Professional Competence of Internal Auditors

Professional competence refers to the knowledge, skills, experience, and ethical standards required performing internal audit activities effectively. Competent auditors are more capable of identifying control weaknesses, assessing financial risks, and providing practical recommendations that enhance accountability and governance (Sarens & Van den Berg, 2021).

Studies indicate that internal auditors with appropriate educational backgrounds, professional certifications, and continuous training significantly improve audit quality and the reliability of financial reporting (Bhattacharya & Sarens, 2019). In manufacturing firms, auditor competence is particularly important due to complex cost structures, inventory systems, and production-related risks.

2.1.6 Audit Scope, Frequency, and Performance

The scope of internal auditing extends beyond financial reviews to include operational, compliance, and information technology audits. Through adequate audit coverage and regular audit activities, internal auditors assess whether organizational resources are used efficiently and in accordance with established policies (COSO, 2011).

Effective audit performance involves systematic planning, execution, reporting, and follow-up in line with professional standards. Adequate audit frequency and broad scope ensure that control weaknesses are identified timely, thereby enhancing financial accountability (IIA, 2013; Chambers & Odar, 2015).

2.1.7 Management Support and Implementation of Audit Recommendations

Management support is a critical determinant of internal audit effectiveness. Supportive management provides adequate resources, respects auditor independence, and ensures timely implementation of audit recommendations. Without such support, even well-designed audit systems fail to enhance accountability (Burnaby et al., 2009).

The implementation of audit recommendations is particularly important for improving financial accountability. When management acts on audit findings, control weaknesses are corrected, financial irregularities are reduced, and governance mechanisms are strengthened. Conversely, failure to implement recommendations diminishes the value of internal auditing (Haile, 2022).

2.1.8 Internal Auditing

Financial accountability refers to an organization's obligation to account for financial resources entrusted to it, ensure accurate reporting, and demonstrate responsible financial management. Effective internal auditing enhances financial accountability by strengthening internal controls, promoting transparency, preventing fraud, and ensuring compliance with laws and regulations (Alzeban & Gwilliam, 2014).

In foam manufacturing firms where inventory management, cost control, and cash flow transactions are critical—internal auditing serves as a key mechanism for safeguarding financial resources and ensuring their use aligns with organizational objectives.

2.1.9 Financial Accountability

Financial accountability involves the provision of complete, transparent, and timely financial information to stakeholders and adherence to established financial rules and standards (Kabuye et al., 2019). Key dimensions of financial accountability include transparency in financial reporting,

accuracy and timeliness of records, regulatory compliance, fraud prevention, and support for informed decision-making.

Internal auditing enhances financial accountability by independently reviewing financial systems and ensuring that internal controls function effectively. By identifying discrepancies and weaknesses, internal auditors contribute to the reliability and credibility of financial information.

2.1.10 Theoretical Foundations of Internal Auditing

Agency Theory:-is a framework that explains the relationship between principals (such as shareholders or owners) and agents (such as managers or executives). The key issue in this relationship is information asymmetry the agents have more information than the principals, which can lead to goal divergence (agents acting in their own interest rather than the principals’).

Jensen and Meckling (1976) argue that this creates agency costs, which are the costs incurred due to the separation of ownership and control. To mitigate these costs, monitoring mechanisms are needed to ensure that agents act in the best interests of the principals.

Internal auditing plays a critical role in this context. It acts as a monitoring mechanism that helps reduce agency costs by:

1. Ensuring that management (agents) acts in the best interest of the owners (principals).
2. Providing independent oversight to detect and prevent mismanagement.
3. Ensuring that resources are used appropriately and efficiently.

In this way, internal auditing supports the principles of accountability and transparency that are central to Agency Theory.

Stakeholder Theory: is a framework that broadens the concept of organizational accountability beyond just shareholders to include all stakeholders who have an interest in the organization’s performance. These stakeholders include employees, customers, suppliers, regulators, the community, and society at large. According to Freeman (1984), the goal of an organization should be to meet the needs of all stakeholders, not just those who own the company.

This theory challenges the traditional view of business as being solely focused on maximizing shareholder value. Instead, it emphasizes ethical responsibility and sustainable practices that consider the interests of all affected parties.

Internal auditing supports this theory by:

1. Promoting transparency in organizational operations and decision-making.
2. Ensuring ethical conduct by monitoring compliance with ethical standards and corporate responsibility.
3. Facilitating regulatory compliance to meet legal and societal expectations.
4. Ensuring that the organization is accountable to all stakeholders, not just shareholders.

In this way, internal auditing helps organizations align with the principles of social responsibility and ethical governance that are central to Stakeholder Theory.

Systems Theory: is a conceptual framework that views organizations as complex, interconnected systems composed of multiple subsystems, such as finance, operations, human resources, and information technology. These subsystems are interdependent, and the performance of one can influence the performance of others. According to Kavanagh (2021), understanding these relationships is essential for effective organizational management and decision-making.

In this theory, the organization is not seen as a single, isolated entity but as a network of interrelated parts that must function together to achieve the organization's goals. It emphasizes feedback loops, adaptability, and the importance of balance within the system.

Internal auditing contributes to this theory by:

1. Evaluating the interactions between different subsystems to identify potential inefficiencies or conflicts.
2. Assessing how changes in one area (e.g., IT systems) can impact other areas (e.g., financial reporting or operational efficiency).
3. Identifying gaps in communication or control that may hinder the organization's ability to function as a cohesive system.
4. Recommending improvements to enhance the overall effectiveness and resilience of the organization.

By applying Systems Theory, internal auditing helps ensure that the organization operates as a well-coordinated, adaptive system that can respond to internal and external changes.

Control Theory: is a framework that emphasizes the need for control mechanisms to ensure that an organization operates efficiently and effectively in pursuit of its objectives. It is based on the

idea that organizations must have systems in place to monitor performance, identify deviations, and take corrective action to maintain alignment with goals.

According to Otley and Berry (1994), internal auditing plays a critical role in this process by functioning as an independent control system. It helps ensure that internal processes are reliable, consistent, and aligned with organizational objectives.

Internal auditing contributes to Control Theory by:

1. Monitoring and evaluating the effectiveness of internal controls to ensure they are functioning as intended.
2. Identifying gaps or weaknesses in control systems that could lead to errors, fraud, or non-compliance.
3. Providing independent assurance that financial information is accurate, complete, and reliable.
4. Recommending improvements to strengthen control mechanisms and enhance organizational performance.

By applying Control Theory, internal auditing helps organizations maintain discipline, accountability, and efficiency, ensuring that they can achieve their goals in a controlled and systematic manner.

Stewardship Theory: is a framework that suggests that managers act as stewards of organizational resources when supported by appropriate governance systems. It emphasizes the ethical responsibility of managers to use organizational resources in the best interests of the organization and its stakeholders. According to Davis et al. (1997), this theory highlights the importance of trust, accountability, and responsible management in ensuring the long-term sustainability and integrity of an organization.

In this view, managers are not just employees or executives but guardians of the organization's assets and values, and their behavior is guided by a sense of duty and responsibility. The theory also underscores the role of governance systems in creating an environment where stewardship can be effectively practiced.

Internal auditing reinforces the principles of Stewardship Theory by:

1. Verifying that managers are acting in the organization's best interest and using resources responsibly.

2. Ensuring accountability by monitoring and evaluating managerial behavior and decision-making.
3. Providing independent assurance that resources are being managed in a transparent, ethical, and efficient manner.
4. Supporting trust in the governance system by confirming that managers are adhering to ethical standards and organizational values.

By applying Stewardship Theory, internal auditing helps ensure that managers are held accountable for their stewardship of organizational resources, fostering a culture of integrity, responsibility, and long-term sustainability.

Resource Dependence Theory: - is a framework that emphasizes the importance of efficiently utilizing organizational resources to achieve competitive advantage and long-term sustainability. It suggests that organizations must manage their financial, human, and other critical resources in a way that maximizes value and minimizes waste. According to this theory, the ability to effectively manage and allocate resources is a key determinant of an organization's success.

Davis, J. M., & Hitt, H. A. (1997) highlight that organizations are dependent on external resources and must strategically manage their relationships with stakeholders to secure the resources they need. This theory underscores the interdependence between organizations and their external environments, such as suppliers, customers, and regulatory bodies. Organizations must strategically manage their relationships and ensure that they have access to the resources they need to function effectively.

Internal auditing contributes to Resource Dependence Theory by:

1. Ensuring that financial resources are used efficiently and effectively to support organizational goals.
2. Evaluating the management of human resources to ensure that employees are utilized in a way that maximizes productivity and aligns with organizational objectives.
3. Identifying gaps in resource allocation that may lead to inefficiencies or mismanagement.
4. Providing independent assurance that the organization is using its resources in a responsible and strategic manner.

By applying Resource Dependence Theory, internal auditing helps ensure that the organization is maximizing the value of its resources, thereby enhancing overall performance and competitiveness.

2.2 Empirical Literature Review

2.2.1 Internal Auditing and Financial Accountability

Empirical studies consistently indicate that effective internal auditing practices play a significant role in enhancing financial accountability by improving financial reporting quality, strengthening internal control systems, and reducing fraud and irregularities. Kabuye et al. (2019), in a study of manufacturing firms in Uganda, found that strong internal audit functions significantly improve financial accountability through better monitoring of financial activities and compliance with internal policies. Similarly, Alzeban and Gwilliam (2014), studying organizations in Gulf Cooperation Council (GCC) countries, concluded that effective internal auditing contributes to improved accountability when auditors operate independently and possess adequate professional competence.

In the Ethiopian context, empirical evidence also supports the positive contribution of internal auditing to accountability. Gizachew and Abera (2020) reported that internal auditor independence positively affects the reliability of financial reporting in public enterprises. Mohammed (2019), in a study of medium-sized manufacturing firms, found that structured internal audit practices enhance financial discipline and managerial decision-making. However, these studies generally focus on broad organizational settings and do not adequately address specific manufacturing subsectors.

2.2.2 Audit Structure and Independence

Audit structure and independence are widely recognized as critical determinants of internal audit effectiveness. Empirical studies show that internal audit units that report directly to senior management or audit committees are more effective in promoting financial accountability. Belay (2018) found that auditor independence improves transparency and accountability by reducing management interference in audit activities. Alzeban and Gwilliam (2014) further emphasized that

independence is particularly important in environments characterized by weak governance structures, where internal auditors play a key monitoring role.

Despite the importance of independence, studies in Ethiopia indicate that many private sector organizations still face challenges related to organizational positioning of internal audit units, which limits their effectiveness (Teshome, 2021).

2.2.3 Audit Scope and Frequency

Audit scope and frequency determine the extent to which internal audit activities comprehensively cover financial operations and reporting processes. Empirical evidence suggests that broader audit scope and regular audit engagement improve financial accountability by enabling timely identification of errors, fraud, and control weaknesses. Cohen and Sayag (2010) found that frequent and comprehensive internal audits enhance the reliability of financial information and internal controls.

However, studies conducted in Ethiopian firms indicate that internal audits are often limited in scope and conducted irregularly due to resource constraints and weak management support, reducing their effectiveness in ensuring accountability (Desalegn & Belay, 2020).

2.2.4 Auditor Competence

Auditor competence is a key factor influencing the quality and effectiveness of internal audit functions. Demissie (2020) found that auditors with higher educational qualifications, professional certifications, and continuous training are better equipped to detect financial irregularities and evaluate complex transactions. Mihret and Yismaw (2007) similarly emphasized that skilled and experienced auditors contribute significantly to improved financial accountability, particularly in complex organizational environments.

In developing countries, including Ethiopia, limited access to professional training and shortage of qualified auditors remain major challenges affecting audit effectiveness in private sector firms (Haile, 2022).

2.2.5 Use of Audit Tools and Technology

The use of modern audit tools and technology has become increasingly important for effective internal auditing. Empirical studies show that audit software and computerized audit techniques enhance audit efficiency, accuracy, and coverage. Sarens and Van den Berg (2021) found that organizations that adopt audit technologies achieve better monitoring of financial activities and improved accountability.

However, evidence from Ethiopian firms suggests that many organizations still rely on manual audit procedures, which limits audit effectiveness and increases the risk of errors and fraud (Teshome, 2021).

2.2.6 Implementation of Audit Recommendations

The implementation of audit recommendations is critical for translating audit findings into improved financial accountability. Haile (2022) observed that weak follow-up mechanisms and delayed implementation of audit recommendations in Ethiopian manufacturing firms undermine accountability and control effectiveness. Similarly, Ojo and Akinsulire (2018) found that consistent implementation of audit recommendations enhances transparency, compliance, and stakeholder confidence.

Failure to act on audit recommendations has been identified as one of the most significant factors reducing the effectiveness of internal auditing in private sector organizations.

2.2.7 Research Gaps

Although existing empirical studies provide valuable insights into the role of internal auditing in enhancing financial accountability, several gaps remain. First, most Ethiopian studies focus on public sector institutions and financial organizations, with limited attention to private manufacturing firms. Second, studies that address manufacturing firms tend to adopt a broad approach without examining specific subsectors such as foam manufacturing, which face unique operational and financial risks. Third, limited empirical evidence exists on how specific internal auditing practices—audit structure and independence, audit scope and frequency, auditor

competence, use of audit tools and technology, and implementation of audit recommendations affect financial accountability in Ethiopian foam manufacturing firms.

Accordingly, this study seeks to fill these gaps by empirically examining the effectiveness of internal auditing practices in enhancing financial accountability in selected foam manufacturing firms in Addis Ababa.

2.3 Conceptual Framework

The conceptual framework of this study illustrates the relationship between internal auditing practices and financial accountability in foam manufacturing firms in Addis Ababa. Internal auditing practices are considered independent variables, while financial accountability is the dependent variable.

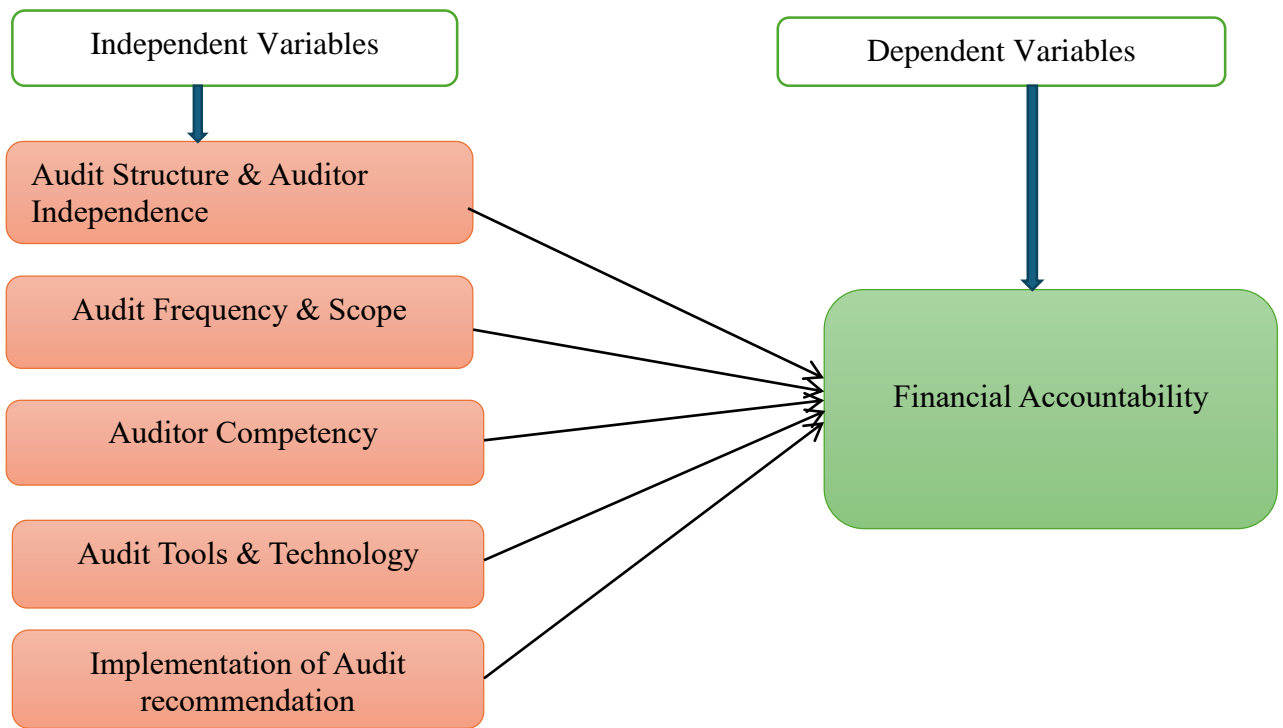


Figure 1: Conceptual frame work (Source: modified from Alzeban & Gwilliam (2014) & IIA (2023)).

Definition of Variables

1. **Audit Structure and Independence** – Refers to the organizational positioning of the internal audit function, the degree of autonomy it has in performing audit activities, and its

freedom from undue management influence. It is measured through indicators such as reporting lines, independence in audit planning, and unrestricted access to records.

2. **Audit Scope and Frequency** – Refers to the extent and regularity with which internal audit activities cover financial operations, transactions, and reporting processes. It is measured by the comprehensiveness of audit coverage and the frequency of audit engagements conducted within a given period.
3. **Auditor Competence** – Refers to the knowledge, skills, experience, and professional qualifications of internal auditors that enable them to perform audit tasks effectively. It is measured through educational background, professional training, experience, and technical skills.
4. **Use of Audit Tools and Technology** – Refers to the application of modern auditing tools, techniques, and information technology in conducting audit activities. It is measured by the extent to which audit software, data analysis tools, and computerized systems are used during audit processes.
5. **Implementation of Audit Recommendations** – Refers to the degree to which management acts upon and enforces internal audit findings and recommendations. It is measured by the timeliness, completeness, and effectiveness of corrective actions taken by management.

These internal audit practices are expected to positively influence financial accountability, which includes accurate financial reporting, transparency, adherence to internal controls, and prevention of fraud.

Financial accountability refers to the accuracy, reliability, and transparency of an organization's financial reporting and controls. In this study, it includes:

- **Accuracy of Financial Reporting** – financial statements reflect true and fair results of operations.
- **Transparency and Compliance** – adherence to internal policies, regulatory requirements, and clear disclosure of financial information.
- **Reliability of Internal Controls** – systems in place to prevent fraud, errors, and mismanagement of resources.

2.4 Internal Auditing and Financial Accountability in Manufacturing Firms

Manufacturing firms play a crucial role in economic development through employment creation, value addition, and import substitution, particularly in developing economies. In Ethiopia, the manufacturing sector contributes significantly to industrial growth and the supply of consumer and industrial goods (World Bank, 2020). However, manufacturing firms often face challenges related to weak internal control systems, financial mismanagement, and limited accountability mechanisms, which undermine organizational performance and sustainability.

Internal auditing is widely recognized as an essential governance mechanism that supports financial accountability by evaluating the effectiveness of internal controls, risk management, and compliance with organizational policies and regulatory requirements (IIA, 2017). In manufacturing firms, where operations are capital-intensive and involve complex production and financial processes, effective internal auditing is critical for preventing financial irregularities, minimizing fraud, and ensuring the reliability of financial reporting (Arena & Azzone, 2009).

Empirical studies indicate that internal audit effectiveness in manufacturing firms is strongly influenced by factors such as audit independence, scope of audit activities, auditor competence, use of audit tools and technology, and the implementation of audit recommendations (Al-Twajry, Brierley, & Gwilliam, 2003; Mihret & Yismaw, 2007). In particular, the timely implementation of audit recommendations has been identified as a key determinant of improved financial accountability and control effectiveness (Dittenhofer, 2001).

Despite the existence of internal audit units in many manufacturing organizations, financial accountability remains a concern due to inadequate management support and weak follow-up mechanisms (Mihret & Grant, 2017). This highlights the need for studies that examine how internal auditing practices contribute to financial accountability within the specific context of manufacturing firms in developing countries. Accordingly, this study addresses this gap by investigating the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology adopted to examine the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa. It outlines the research design and research approach, target population, sampling techniques and sample size, data sources and collection instruments, methods of data analysis, reliability and validity measures, and ethical considerations. The methodology is designed to ensure that the study objectives are addressed systematically and that the findings are reliable and credible.

3.2 Study area of the research project

The study was conducted at a foam manufacturing company in Addis Ababa, selected for its relevance to internal auditing and financial practices in the manufacturing sector.

3.3 Research Design

Research design refers to the overall plan that guides data collection, measurement, and analysis in order to address research objectives and test hypotheses (Kothari, 2004). This study employs an explanatory research design supported by descriptive analysis.

The explanatory research design is primarily used to examine the effect of internal auditing practices on financial accountability in selected foam manufacturing firms in Addis Ababa. This design enables the study to test hypotheses and determine the magnitude and significance of the relationship between internal audit practices and financial accountability using statistical techniques.

Descriptive analysis is used to provide background information on the existing internal auditing practices and the level of financial accountability in the firms. This helps to describe the current situation while supporting the explanatory analysis.

Accordingly, the research design is appropriate to achieve the study's objective of assessing the effectiveness of internal auditing practices in enhancing financial accountability.

3.4 Research Approach

A research approach refers to the methodological orientation used to collect, analyze, and interpret data (Creswell, 2014). This study employs a mixed-methods approach, integrating both quantitative and qualitative methods to provide a comprehensive understanding of the research problem.

The quantitative method is used to gather numerical data through structured questionnaires. This approach allows for the objective measurement of internal auditing practices and financial accountability, and it supports statistical analysis, including correlation and regression techniques. The qualitative method is used to explore deeper insights into internal auditing practices, challenges, and contextual factors that influence audit effectiveness. Data are collected through semi-structured interviews and focus group discussions.

The mixed-methods approach is suitable for this study because it enables data triangulation, enhances the validity of findings, and offers a more holistic perspective than a single-method approach (Creswell & Plano Clark, 2017).

3.5 Population, Sample Size, and Sampling Technique

3.5.1 Target Population

The target population of this study comprises all employees directly involved in internal auditing, financial management, and key managerial and operational decision-making in selected foam manufacturing firms located in Addis Ababa. These include staff working in the internal audit units, finance departments, production and operations departments, and general management.

Based on information obtained from the selected foam manufacturing firms, the total number of employees who fall within these relevant functional categories is 94. These employees are considered appropriate for the study because of their direct involvement in internal auditing activities, financial control processes, and organizational decision-making related to financial accountability. Accordingly, the target population (N) of the study is 94.

3.5.2 Sample Size Determination

To determine an appropriate sample size, the study employed Yamane's (1967) sample size determination formula, which is widely used in social science research when the population size is known.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

- n = sample size
- N = population size (94)
- e = margin of error (5%)

$$\begin{aligned}n &= \frac{94}{1 + 94(0.05)^2} \\n &= \frac{94}{1 + 94(0.0025)} \\n &= \frac{94}{1 + 0.235} \\n &= \frac{94}{1.235} \\n &\approx 76\end{aligned}$$

A total sample size of 76 respondents was selected for this study. The sample was determined based on the size of the population and the need to ensure adequate representation from each firm and functional category. The sample was composed of 36 respondents from the Finance department, 12 from the internal audit service, and 24 from the production and operational departments, with 4 respondents from the general management. This selection method aligns with proportional representation principles, which are widely used in organizational research to ensure that all relevant groups are adequately represented (Creswell & Plano Clark, 2017). The sample size was chosen to provide sufficient data for analysis while maintaining representativeness across the key functional areas of the foam manufacturing firms in Addis Ababa.

3.5.3 Sampling Technique

The study employed purposive sampling to select respondents who are directly involved in, or affected by, internal auditing and financial accountability processes within foam manufacturing firms. This technique was considered appropriate because the study focuses on assessing internal auditing practices and their influence on financial accountability, which requires information from personnel occupying specific functional positions.

Accordingly, respondents were selected from the internal audit unit, finance department, general management, and production and operations departments. Employees in the internal audit and finance departments were included because of their direct involvement in audit execution, financial reporting, and control activities. General Managers were included due to their oversight responsibility and decision-making authority related to audit findings and financial accountability.

Production and operations managers were included not as audit experts, but because they are key auditees and implementers of internal controls and audit recommendations related to inventory management, cost control, resource utilization, and operational compliance. Internal audits in manufacturing firms frequently examine production-related activities such as material usage, inventory handling, wastage, and operational efficiency. Therefore, production managers are in a position to provide relevant information regarding how audit recommendations affect operational practices and financial accountability outcomes.

Thus, purposive sampling was used to ensure that all selected respondents possess practical exposure to audit processes, audit outcomes, or accountability mechanisms, making them capable of providing reliable and relevant data for the study (Patton, 2002).

3.6 Qualitative Data: Population, Sample Size, and Sampling Technique

3.6.1 Target Population for the Interview

The target population for the qualitative component of this study comprised internal auditors and senior management personnel working in selected foam manufacturing firms in Addis Ababa. These groups were considered appropriate for the qualitative inquiry because they possess strategic-level knowledge and practical experience related to internal audit planning, execution,

follow-up of audit recommendations, and financial accountability practices within their organizations.

Internal auditors were included due to their direct responsibility for conducting audit activities, identifying control weaknesses, and reporting audit findings. Senior managers were selected because of their decision-making authority and responsibility for responding to audit reports and ensuring the implementation of audit recommendations. Collectively, these participants were well positioned to provide in-depth insights into the effectiveness of internal auditing in enhancing financial accountability.

3.6.2 Sample Size for the Interview

The qualitative sample consisted of six (6) interview participants, comprising three internal auditors and three senior managers drawn from the selected foam manufacturing firms. The sample size was determined based on the principle of data saturation, whereby additional interviews were deemed unlikely to generate substantially new or relevant information in relation to the research objectives.

Creswell (2014) notes that qualitative research typically employs small, information-rich samples to obtain in-depth understanding rather than statistical generalization. Accordingly, the selected number of interviewees was considered sufficient to capture detailed perspectives on internal audit practices, implementation challenges, and management responses within the study context.

3.6.3 Sampling Technique for the Interview

Purposive sampling was employed to select participants for the qualitative component of the study. This technique was appropriate because the research required respondents with specialized knowledge, professional experience, and decision-making responsibilities related to internal auditing and financial accountability.

Internal auditors were purposively selected based on their active involvement in audit activities, while senior managers were chosen due to their oversight role and responsibility for implementing audit recommendations. The use of purposive sampling ensured that the qualitative data were

obtained from knowledgeable and experienced individuals, thereby enhancing the relevance, depth, and credibility of the findings (Patton, 2002).

3.6.4 Interview Procedure and Purpose

Primary qualitative data were collected through semi-structured interviews conducted with the selected internal auditors and senior managers. The interviews focused on examining the effectiveness of internal audit practices, challenges encountered in audit implementation, and management responses to audit findings and recommendations.

The qualitative data complemented the quantitative survey results by providing contextual explanations, practical experiences, and managerial perspectives that could not be fully captured through structured questionnaires alone. This integration of qualitative and quantitative data strengthened the interpretation and robustness of the study findings (Creswell, 2014).

3.7 Data Sources and Types

3.7.1 Primary Data

Primary data were collected directly from respondents to ensure that the information obtained was relevant, current, and aligned with the objectives of the study. Both quantitative and qualitative primary data were gathered.

Quantitative data were obtained through structured questionnaires administered to internal auditors, finance officers, and management staff of the selected foam manufacturing firms. The questionnaire focused on key aspects of internal auditing practices and financial accountability, including audit independence, audit scope, auditor competence, use of audit tools, implementation of audit recommendations, and perceived challenges. Responses were measured using a five-point Likert scale ranging from strongly disagree to strongly agree, a scale widely applied in social science and accounting research to measure perceptions and attitudes (Sekaran & Bougie, 2016).

In addition, qualitative primary data were collected through semi-structured interviews conducted with selected internal auditors and senior managers. The interviews aimed to obtain deeper insights into the effectiveness of internal audit activities, challenges encountered in practice, and management responses to audit findings. The qualitative data enriched the quantitative results by

providing contextual explanations and practical perspectives that could not be captured through questionnaires alone (Creswell, 2014).

3.7.2 Secondary Data

Secondary data were obtained from existing organizational and regulatory sources to support and triangulate the primary data findings. These sources included internal audit reports, audited financial statements, organizational policies and procedures, and relevant regulatory and professional guidelines related to auditing and financial management.

The use of secondary data helped provide background information on the internal audit environment of the selected firms and strengthened the credibility of the study by enabling cross-validation of responses obtained from primary data sources (Saunders, Lewis, & Thornhill, 201

3.8 Data Collection Methods

The study employed a mixed-methods data collection strategy to achieve a comprehensive understanding of the research problem. Quantitative data were collected using structured questionnaires, while qualitative data were gathered through semi-structured interviews.

“The questionnaire was developed based on a review of related empirical literature on internal auditing and financial accountability, particularly studies by Mihret and Yismaw (2007), Alzeban and Gwilliam (2014), and IIA (2017). The items were adapted to fit the context of foam manufacturing firms in Addis Ababa.”It was selected due to its suitability for collecting standardized data from a relatively large group of respondents within a limited time frame. Questionnaires are widely used in accounting and management research because they facilitate comparability of responses and allow for statistical analysis of relationships among variables (Bryman, 2016). The instrument was designed in line with the study’s conceptual framework and hypotheses, and a five-point Likert scale was applied to measure respondents’ perceptions of internal auditing practices and financial accountability.

To complement the questionnaire data, semi-structured interviews were conducted with a purposively selected group of senior managers and internal auditors. This method allowed flexibility in probing key issues, such as audit effectiveness, management support, and follow-up

of audit recommendations. The integration of quantitative and qualitative data collection methods enhanced the depth, validity, and reliability of the study findings through methodological triangulation (Creswell & Plano Clark, 2017).

3.9 Data Analysis Techniques

Data collected for this study were systematically organized, presented, and analyzed using both quantitative and qualitative methods in accordance with the research objectives and hypotheses.

Quantitative data obtained from structured questionnaires were coded and entered into the Statistical Package for Social Sciences (SPSS) for analysis. The results were presented using tables, charts, and graphs to enhance clarity and ease of interpretation. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' demographic characteristics and to describe the key variables related to internal auditing practices and financial accountability.

To examine relationships and test the study hypotheses, inferential statistical techniques were employed. Pearson correlation analysis was used to assess the association between internal auditing practices and financial accountability, while multiple regression analysis was applied to determine the effect of audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, and implementation of audit recommendations on financial accountability. Statistical decisions were made at a 5 percent level of significance.

Qualitative data collected through semi-structured interviews were analyzed thematically. Interview responses were transcribed, coded, and grouped into relevant themes. The qualitative findings were presented in narrative form and used to support and explain the quantitative results, thereby providing a comprehensive understanding of the research problem.

3.10 Regression Model Specification

To examine the effect of internal auditing practices on financial accountability in foam manufacturing firms in Addis Ababa, a multiple linear regression model was employed. Financial accountability was treated as the dependent variable, while key internal auditing practice dimensions were considered as independent variables.

The regression model was specified as follows:

$$FA = \beta_0 + \beta_1 AS + \beta_2 AF + \beta_3 AC + \beta_4 AT + \beta_5 AR + \varepsilon$$

Where:

FA = Financial Accountability

AS = Audit Structure and Independence

AF = Audit Frequency and Scope

AC = Auditor Competency

AT = Audit Tools and Technology

AR = Implementation of Audit Recommendations

β_0 = Intercept (constant term)

$\beta_1 - \beta_5$ = Regression coefficients measuring the effect of each independent variable

ε = Error term

The model was used to assess the magnitude and direction of the relationship between internal auditing practices and financial accountability and to test the study hypotheses at a 5 percent level of significance.

3.11 Validity and Reliability

3.11.1 Validity

Validity refers to the extent to which the research instrument accurately measures the intended concepts (Kothari, 2004). Content validity was ensured through expert review by academic supervisors and professionals with experience in internal auditing and financial management. Their feedback helped refine the questionnaire items to ensure adequate coverage of all study variables. Construct validity was further strengthened through triangulation by combining quantitative survey data with qualitative interview findings, which enhanced the credibility and accuracy of the study results (Creswell, 2014).

3.11.2 Reliability

The reliability of the research instrument was examined to ensure the consistency and dependability of the data collected. Internal consistency reliability of the questionnaire items was

tested using Cronbach’s alpha coefficient. According to Nunnally (1978), a Cronbach’s alpha value of 0.70 or higher is considered acceptable for social science research. Prior to the main survey, a pilot test was conducted to identify unclear statements and improve the wording and structure of the questionnaire. The results of the pilot study confirmed that the instrument was reliable and suitable for the main data collection.

Table 1: Coefficient of Reliability for each item

Variable	Cronbach’s Alpha	Number of Items
Audit Structure and Independence (ASI)	0.91	5
Audit Frequency and Scope (AFS)	0.82	4
Auditor Competency (AC)	0.85	5
Audit Tools and Technology (ATT)	0.79	4
Implementation of Audit Recommendations (AR)	0.87	5
Financial Accountability (FA)	0.83	5
Overall Scale	0.84	28

Source: Own field survey, 2025

Reliability describes the degree to which a research instrument consistently measures the intended constructs. In this study, the reliability of the questionnaire was assessed using Cronbach’s alpha coefficient, a widely accepted statistical measure for evaluating the internal consistency of Likert-scale items.

The results of the reliability test indicate that the Cronbach’s alpha coefficients for the individual study variables ranged between 0.79 and 0.91, while the overall reliability of the instrument was 0.84. All values exceeded the commonly accepted minimum threshold of 0.70, demonstrating that the questionnaire items were sufficiently consistent in measuring their respective constructs.

The findings further show that Audit Structure and Independence recorded a particularly high reliability coefficient, reflecting strong internal consistency among its items. Likewise, Auditor Competency, Implementation of Audit Recommendations, and Financial Accountability exhibited

high reliability levels, confirming that the measurement items appropriately represented these variables. The remaining constructs—Audit Frequency and Scope and Audit Tools and Technology—also achieved acceptable reliability values.

Overall, the reliability results confirm that the research instrument was dependable and appropriate for subsequent statistical analyses, including correlation and multiple regression analysis.

3.12 Ethical Considerations

Ethical principles were strictly observed throughout the research process to ensure the protection of participants and the integrity of the study. Participation in the study was entirely voluntary, and informed consent was obtained from all respondents prior to data collection. The purpose of the study was clearly explained to participants, and they were assured that their responses would be used solely for academic purposes.

Confidentiality and anonymity of respondents were maintained by excluding personal identifiers from the questionnaires and interview records. The collected data were handled with care and stored securely to prevent unauthorized access. Participants were also informed of their right to withdraw from the study at any stage without any penalty or negative consequences. Adhering to these ethical standards helped enhance the credibility, trustworthiness, and ethical soundness of the research (Kothari, 2004; Creswell, 2014).

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS, AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and discussion of the data collected for the study through questionnaires and semi-structured interviews. The main purpose of the analysis is to examine the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms located in Addis Ababa.

Both quantitative and qualitative data analysis techniques are employed to provide a comprehensive understanding of the relationships among the study variables. Quantitative data obtained from the questionnaires are analyzed using descriptive and inferential statistical methods, while qualitative data gathered from interviews are analyzed thematically to complement and enrich the quantitative findings.

The responses were collected using a five-point Likert scale, ranging from strongly agree to strongly disagree, to measure respondents' perceptions regarding internal audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, implementation of audit recommendations, and financial accountability.

This chapter also covers data preparation procedures, including coding and entry, followed by reliability testing and statistical analysis. The findings are presented and discussed in relation to the research objectives and supported by relevant empirical and theoretical literature to ensure accurate, valid, and reliable conclusions.

4.2 Demographic Characteristics of Respondents

The first section of the questionnaire focused on collecting demographic information about the respondents. This section consisted of five items covering gender, age group, educational qualification, work experience, and job position. Collecting such background information was important to help the researcher understand the characteristics of the respondents and to provide

context for interpreting the study findings related to internal auditing practices and financial accountability in foam manufacturing firms.

4.3 Response Rate

For the purpose of this study, a total of 86 questionnaires were distributed to employees working at the head office and factory sites of selected foam manufacturing firms in Addis Ababa. The questionnaires were administered to staff from different functional areas to ensure diverse and relevant perspectives. Specifically, the questionnaires were distributed to internal auditors (12), finance department staff (40), production and operations department staff (30), and general managers (4).

Out of the total questionnaires distributed, 76 valid and usable responses were successfully collected, representing a high response rate, while the remaining questionnaires were not returned.

4.4 Background Information of the Respondents

This section presents the background characteristics of the respondents based on the demographic information collected through the questionnaire. The analysis includes variables such as gender, age, educational level, work experience, and job position.

Table 2: Sex Distribution of Respondents

Sex distribution of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	42	55.3	55.3	55.3
	Female	34	44.7	44.7	100.0
	Total	76	100.0	100.0	

Source: own field survey, 2025

As indicated in the above table the distribution of respondents by sex shows that 42 respondents (55.3%) were male, while 34 respondents (44.7%) were female, making a total of 76 respondents. This indicates a relatively balanced participation of both male and female employees in the study, with a slight predominance of male respondents.

Table 3: Age Distribution of Respondents

Age distribution of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 25 years	2	2.6	2.6	2.6
	26 – 35	39	51.3	51.3	53.9
	36 – 45 years	15	19.7	19.7	73.7
	Above 46 years	20	26.3	26.3	100.0
	Total	76	100.0	100.0	

Source: Own field survey, 2025

As presented in Table 3. Out of the total 76 respondents, the majority, 39 respondents (51.3%), were in the age group of 26–35 years. This indicates that more than half of the participants were relatively young adults who are likely to be active and engaged in professional responsibilities within the organizations.

Respondents aged 36–45 years accounted for 15 individuals (19.7%), while those aged above 46 years constituted 20 respondents (26.3%). This shows that a considerable proportion of the respondents had mature age profiles, which may reflect substantial work experience and institutional knowledge. Only 2 respondents (2.6%) were below 25 years of age, representing the smallest age category.

Overall, the age composition suggests that the respondents were predominantly within economically active and professionally experienced age groups, which is appropriate for providing reliable information on internal auditing practices and financial accountability in foam manufacturing firms.

Table 4: Marital Status of the respondent

Marital Status of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	45	59.2	59.2	59.2
	Married	31	40.8	40.8	100.0
	Total	76	100.0	100.0	

Source: Own field survey, 2025

Table 4 indicates that the majority of respondents, 45 (59.2%), were single, while 31 respondents (40.8%) were married. This shows that more than half of the participants were single, reflecting a workforce largely composed of unmarried individuals.

Table 5: Educational Background of respondents

Education background of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	54	71.1	71.1	71.1
	Master's degree and above	22	28.9	28.9	100.0
	Total	76	100.0	100.0	

Source: Own field survey, 2025

The educational background of the respondents is primarily composed of individuals with a first degree (bachelor's or equivalent), with 54 respondents (71.1%) holding this level of education. In contrast, 22 respondents (28.9%) have a master's degree or higher, indicating a smaller but notable proportion of highly educated participants.

This distribution suggests that the majority of the sample consists of professionals who have completed a bachelor's degree, which is common in many professional fields, including internal auditing and financial management. The presence of a smaller group with advanced degrees highlights the diversity in educational attainment among the participants.

The educational background of the respondents is an important factor in understanding their level of knowledge and expertise in internal auditing and financial accountability. Those with higher

education are likely to have a more in-depth understanding of audit processes, regulatory requirements, and the impact of audit findings on organizational performance. This variation in educational background adds depth to the study, allowing for a more nuanced analysis of how education influences professional perspectives and practices.

Table 6: Respondents Work Experience

Work Experience of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 year	29	38.2	38.2	38.2
	6– 10 years	29	38.2	38.2	76.3
	11 – 15 years	5	6.6	6.6	82.9
	Above 16 years	13	17.1	17.1	100.0
	Total	76	100.0	100.0	

Source: Own field survey, 2025

The work experience of the respondents is distributed across different categories, as shown in the table. The majority of the 76 participants have between 1 and 10 years of work experience, with 29 respondents (38.2%) having 1–5 years of experience and another 29 respondents (38.2%) having 6–10 years of experience. This accounts for 76.4% of the total sample, indicating that a large portion of the participants are in the early to mid-career stage.

In contrast, a smaller group of respondents (6.6%) have 11–15 years of experience, and another 17.1% have more than 16 years of experience. This suggests that while the majority of participants are relatively new or mid-career professionals, there is also a notable presence of individuals with more extensive experience.

The distribution of work experience highlights that the sample includes a mix of professionals at different stages of their careers. This diversity in experience levels is important because it allows for a more comprehensive analysis of how work experience might influence perceptions and understanding of internal auditing and organizational practices. Those with more experience are likely to have a deeper understanding of audit processes, auditor independence, and the impact of audit findings on organizational performance, which can strengthen the validity of the study’s findings.

4.5 Internal Audit Practices in the Foam Manufacturing Industry

To assess the status of internal audit practices in foam manufacturing firms, mean scores derived from respondents' ratings on a five-point Likert scale were interpreted using predefined mean range categories. These categories help in classifying the extent to which internal audit practices are implemented and perceived within the organizations.

Table 7: Mean Range Values and Interpretation Categories

Mean Range	Category
1.00–1.80	Very Low
1.81–2.60	Low
2.61–3.40	Moderate
3.41–4.20	High
4.21–5.00	Very High

Source: Adapted from Likert (1932) and Sekaran & Bougie (2016)

4.5.1 Audit Structure and Independence

In Internal audit structure independence is a fundamental element of an effective internal audit function, as it enables auditors to perform their duties objectively and without undue influence from management. In this study, audit structure and audit independence in foam manufacturing firms was examined using respondents' mean ratings on statements related to organizational positioning, reporting lines, and freedom from interference.

The mean scores for internal audit independence were interpreted based on the above classification criteria. Accordingly, higher mean values indicate stronger independence of the internal audit function; while lower mean values reflect limitations in autonomy and objectivity. This approach provides a clear and systematic basis for evaluating the extent to which internal auditors in the foam industry operate independently and contribute effectively to enhancing financial accountability. Audit Structure and Independence refer to the extent to which the internal audit

function is formally established, reports to appropriate authority, and operates without undue influence from management.

Audit Structure and Independence

Table 8: Audit Structure and Auditor Independence

Descriptive Statistics		
Audit Structure and Auditor Independence	Mean	Std. Deviation
Internal audit staff contributes to key organizational decision-making processes.	4.25	0.65
Internal auditors perform their duties without interference from management.	4	0.57
Internal auditors have unrestricted access to financial records and documents.	3.85	0.7
Independence of the internal audit function enhances audit effectiveness.	4.1	0.6
Valid N (listwise)		

Source: Own field survey, 2025

Table 8 presents the descriptive statistics for audit structure and independence. Respondents generally rated this dimension highly, with mean scores ranging from 3.85 to 4.25. The highest score (Mean = 4.25, SD = 0.65) was for “Internal audit staff contribute to key organizational decision-making,” supporting Agency Theory, which highlights the role of auditors in reducing information asymmetry (Jensen & Meckling, 1976), and aligning with empirical studies by Alzeban and Gwilliam (2014) and Endaya and Hanefah (2016).

“Independence of the internal audit function enhances audit effectiveness” received a mean of 4.10 (SD = 0.60), consistent with IIA standards and Stewardship Theory, emphasizing auditor objectivity (Mihret & Yismaw, 2007; Allegrini et al., 2006). The statement “Internal auditors perform their duties without interference from management” had a mean of 4.00 (SD = 0.57), supporting Good Corporate Governance Theory and prior findings that reduced managerial influence strengthens audit credibility (Christopher et al., 2009). The lowest-rated item, “Internal auditors have unrestricted access to financial records” (Mean = 3.85, SD = 0.70), suggests some

practical constraints, consistent with the IIA Professional Practice Framework and studies by Arena and Azzone (2009).

Overall, the findings suggest that audit structure and Auditor independence are well established in the firms, reinforcing theoretical and empirical evidence that a strong and independent internal audit function enhances governance and financial accountability.

4.5.2 Audit Frequency and Scope

Table 9: Audit Frequency and Scope

Descriptive Statistics		
Audit Frequency and Scope	Mean	Std. Deviation
Internal audits are conducted regularly as planned.	4.08	0.48
Internal audits adequately cover major financial and operational activities.	4.12	0.5
Financial reporting processes are frequently evaluated by internal audit.	4.1	0.49
Audit activities are sufficient to detect financial irregularities.	4.14	0.51
Internal audits focus on financial accountability and compliance.	4.12	0.49
Audit scope is clearly defined and aligned with organizational risks.	4.2	0.52
Valid N (listwise)		

Source: Own field survey, 2025

Table 9 presents the descriptive statistics for audit frequency and scope. The results indicate that respondents generally agree to a high extent that internal audit activities are conducted regularly and cover key organizational risk areas, as evidenced by mean values ranging from 4.08 to 4.20 with relatively low standard deviations, indicating consistency in responses.

The statement “Audit scope is clearly defined and aligned with organizational risks” recorded the highest mean score (Mean = 4.20, SD = 0.52). This finding strongly supports Risk-Based Auditing Theory, which emphasizes that audit activities should be planned and executed based on the organization’s risk profile to enhance effectiveness and accountability. According to the Institute of Internal Auditors (IIA), aligning audit scope with organizational risks ensures optimal use of

audit resources and strengthens governance. Empirical studies by Arena and Azzone (2009) and Endaya and Hanefah (2016) similarly report that clearly defined and risk-aligned audit scopes significantly improve audit quality and financial accountability.

The item “Audit activities are sufficient to detect financial irregularities” also received a high mean value (Mean = 4.14, SD = 0.51), indicating that respondents perceive internal audit frequency and scope as effective in identifying financial misstatements and irregularities. This finding is consistent with Agency Theory, which views internal audit as a monitoring mechanism designed to mitigate opportunistic behavior and reduce agency costs. Empirical evidence from Coram, Ferguson, and Moroney (2008) supports this result, demonstrating that frequent and well-scoped internal audits enhance fraud detection and financial discipline.

Furthermore, the statement “Internal audits adequately cover major financial and operational activities” achieved a mean score of 4.12 (SD = 0.50), while “Internal audits focus on financial accountability and compliance” recorded a similar mean (Mean = 4.12, SD = 0.49). These findings align with Corporate Governance Theory, which emphasizes comprehensive audit coverage as a critical component of effective oversight and accountability. Prior empirical studies, including Allegrini et al. (2006) and Mihret and Woldeyohannis (2008), confirm that broader audit coverage enhances compliance, transparency, and accountability in organizations.

The statement “Financial reporting processes are frequently evaluated by internal audit” registered a mean score of 4.10 (SD = 0.49), suggesting that internal audit functions play an active role in reviewing financial reporting systems. This supports Stewardship Theory, which posits that management and internal auditors work collaboratively to safeguard organizational resources and improve reporting quality. Empirical findings by Prawitt, Smith, and Wood (2009) also indicate that frequent internal audit reviews contribute to higher financial reporting quality.

Finally, the item “Internal audits are conducted regularly as planned” recorded a mean value of 4.08 (SD = 0.48), reflecting adherence to approved audit plans. This finding is consistent with the IIA’s International Professional Practices Framework, which emphasizes audit regularity as a prerequisite for effective assurance and accountability. Similar results have been reported by

Alzeban and Gwilliam (2014), who found that planned and frequent audit engagements strengthen internal control systems and organizational accountability.

Overall, the results of Table 9 demonstrate that audit frequency and scope are well established in the surveyed organizations. The findings are consistent with agency theory, risk-based auditing theory, stewardship theory, and corporate governance theory, as well as prior empirical literature, which collectively highlight that regular, comprehensive, and risk-focused audit activities play a critical role in enhancing financial accountability.

4.5.3 Audit Competency

Table 10: Audit Competency

Descriptive Statistics		
Auditor Competency	Mean	Std. Deviation
Internal auditors possess adequate professional qualifications.	4.12	0.49
Internal auditors have sufficient experience to perform audit tasks effectively.	4.08	0.48
Auditors receive continuous training and skill development.	4.05	0.46
Auditors demonstrate professionalism and ethical conduct.	4.1	0.47
Internal auditors are capable of identifying financial risks and fraud.	4.08	0.48
Auditor competence improves the quality of audit findings.	4.12	0.49
Valid N (listwise)		

Source: Own field survey, 2025

Table 10 presents the descriptive statistics for auditor competency. The results show that respondents generally agree to a high extent that internal auditors in the surveyed organizations possess the required competencies to perform their duties effectively. The mean scores for all items range from 4.05 to 4.12, with relatively low standard deviations, indicating a high level of consistency among respondents' perceptions.

The statement "Internal auditors possess adequate professional qualifications" recorded one of the highest mean values (Mean = 4.12, SD = 0.49). This finding supports Human Capital Theory,

which emphasizes that employees' professional qualifications and technical expertise are critical determinants of organizational effectiveness. According to the Institute of Internal Auditors (IIA), professional certification and academic qualifications enhance auditors' ability to apply auditing standards and exercise sound professional judgment. Empirical studies by Mihret, James, and Mula (2010) and Al-Twajry, Brierley, and Gwilliam (2003) similarly confirm that auditor qualifications positively influence audit quality and accountability.

The item "Auditor competence improves the quality of audit findings" also recorded a high mean score (Mean = 4.12, SD = 0.49), indicating strong agreement among respondents. This result aligns with Agency Theory, which views competent internal auditors as effective monitoring agents who reduce information asymmetry between management and stakeholders. Empirical evidence from Prawitt, Smith, and Wood (2009) demonstrates that higher auditor competence is associated with improved audit quality and more reliable financial reporting.

Furthermore, the statement "Internal auditors have sufficient experience to perform audit tasks effectively" achieved a mean score of 4.08 (SD = 0.48). This supports Experiential Learning Theory, which suggests that practical experience enhances problem-solving skills and professional judgment. Prior studies by Endaya and Hanefah (2016) report that experienced internal auditors are more effective in identifying control weaknesses and recommending corrective actions.

The finding that "Auditors receive continuous training and skill development" (Mean = 4.05, SD = 0.46) highlights the importance of ongoing professional development. This result is consistent with Professional Competence Theory, which emphasizes continuous learning as essential for adapting to changes in auditing standards, technology, and regulatory requirements. Empirical studies by Arena and Azzone (2009) and Alzeban and Gwilliam (2014) confirm that continuous training enhances auditors' technical capacity and audit effectiveness.

The statement "Auditors demonstrate professionalism and ethical conduct" recorded a mean value of 4.10 (SD = 0.47), indicating strong agreement. This finding aligns with Ethical Theory and the IIA Code of Ethics, which emphasize integrity, objectivity, and professionalism as fundamental principles guiding internal audit practice. Empirical research by Gramling and Myers (2006) also

highlights that ethical conduct strengthens trust in audit findings and promotes financial accountability.

Finally, the item “Internal auditors are capable of identifying financial risks and fraud” achieved a mean score of 4.08 (SD = 0.48). This result supports Fraud Triangle Theory, which recognizes internal auditors as key actors in detecting fraud through risk assessment and control evaluation. Empirical findings by Coram et al. (2008) show that competent and skilled internal auditors significantly improve fraud detection and prevention.

Overall, the findings in Table 10 demonstrate that auditor competency is well established in the studied organizations. The results are consistent with human capital theory, agency theory, professional competence theory, and empirical literature, all of which emphasize that qualified, experienced, ethical, and continuously trained auditors play a critical role in enhancing audit quality and strengthening financial accountability.

4.5.4 Audit Tools and Technology

Table 11: Audit Tools and Technology

Descriptive Statistics		
Audit Tools and Technology	Mean	Std. Deviation
Internal auditors use appropriate audit tools and techniques.	3.62	0.84
Technology is effectively used in audit planning and execution.	3.48	0.91
Audit software improves accuracy and efficiency of audit work.	3.71	0.79
Auditors have access to modern data analysis tools.	3.39	0.93
Technological tools enhance detection of errors and fraud.	3.56	0.88
Use of audit technology strengthens financial accountability.	3.74	0.81
Valid N (listwise)		

Source: Own field survey, 2025

Table 11 presents the descriptive statistics for audit tools and technology used by internal auditors in the sampled organizations. The mean values range from 3.39 to 3.74, indicating a moderate to high level of agreement among respondents regarding the use of audit technology. Compared to other internal audit dimensions, this construct shows relatively higher standard deviations, suggesting variation in the availability and application of technological tools across organizations.

The statement “Use of audit technology strengthens financial accountability” recorded the highest mean score (Mean = 3.74, SD = 0.81), implying that respondents generally recognize the importance of technology in enhancing transparency, accuracy, and accountability in financial management. This finding is consistent with Systems Theory, which views organizations as interrelated systems where technology enhances information processing, control, and decision-making. According to the Institute of Internal Auditors (IIA), the effective use of audit technology improves audit coverage and reliability of audit outputs.

The item “Audit software improves accuracy and efficiency of audit work” also achieved a relatively high mean (Mean = 3.71, SD = 0.79). This supports Technology Acceptance Model (TAM), which posits that perceived usefulness and efficiency influence the adoption of technology in professional tasks. Empirical studies by Ahmi and Kent (2013) and Bierstaker, Janvrin, and Lowe (2014) confirm that audit software enhances audit efficiency, reduces human error, and improves audit quality.

However, the statement “Auditors have access to modern data analysis tools” recorded the lowest mean score (Mean = 3.39, SD = 0.93), indicating only moderate agreement. This suggests that while technology is recognized as important, access to advanced audit analytics tools may be limited in some organizations. This finding aligns with Contingency Theory, which argues that organizational practices, including technology adoption, depend on contextual factors such as resources, management support, and organizational size. Empirical evidence from Alzeban and Sawan (2015) shows that limited resources often constrain the full implementation of audit technologies in developing-country contexts.

Similarly, “Technology is effectively used in audit planning and execution” recorded a moderate mean (Mean = 3.48, SD = 0.91), implying that technology is not yet fully integrated into all stages

of the audit process. This finding is supported by empirical studies such as Mahzan and Lymer (2014), which report that many internal audit units use technology primarily for basic audit tasks rather than advanced risk-based planning and continuous auditing.

The statements “Internal auditors use appropriate audit tools and techniques” (Mean = 3.62, SD = 0.84) and “Technological tools enhance detection of errors and fraud” (Mean = 3.56, SD = 0.88) indicate a generally positive perception of technology’s role in supporting audit effectiveness. These results are consistent with Fraud Detection Theory, which emphasizes the use of analytical tools and automated techniques to identify anomalies and irregularities. Empirical studies by Curtis and Payne (2014) demonstrate that technology-assisted auditing improves fraud detection and strengthens internal control systems.

Overall, the findings in Table 11 suggest that while audit tools and technology contribute positively to internal audit effectiveness and financial accountability, their utilization remains moderate and uneven across organizations. The results align with systems theory, technology acceptance model, contingency theory, and empirical literature, indicating that enhanced investment in audit technology, training, and infrastructure would further strengthen internal audit effectiveness and financial accountability in the studied organizations.

4.5.5 Implementation of Audit Recommendations

Table 12: Implementation of Audit Recommendations

Implementation of Audit Recommendations	Mean	Std. Deviation
Audit recommendations are clearly communicated to management.	3.84	0.54
Management gives due attention to audit recommendations.	3.79	0.59
Audit recommendations are implemented on time.	3.84	0.55
Follow-up mechanisms exist to ensure implementation of audit recommendations.	3.79	0.57
Implementation of audit recommendations improves financial accountability	3.85	0.52
Lack of implementation reduces audit effectiveness.	3.8	0.56
Valid N (listwise)		

Source: Own field survey, 2025

Table 12 presents the descriptive statistics for the implementation of audit recommendations in the studied organizations. The mean values range from 3.79 to 3.85, indicating a high level of agreement among respondents that the follow-up and implementation of audit recommendations play a critical role in enhancing internal audit effectiveness and financial accountability. The relatively low standard deviations (0.52–0.59) suggest consistency in respondents' perceptions.

The statement “Implementation of audit recommendations improves financial accountability” recorded the highest mean score (Mean = 3.85, SD = 0.52), highlighting that respondents strongly perceive implementation as the most decisive factor in translating audit findings into improved accountability. This finding is well aligned with Agency Theory, which posits that monitoring mechanisms such as internal audit reduce information asymmetry and agency problems only when audit findings are acted upon by management.

Similarly, the high mean for “Audit recommendations are clearly communicated to management” (Mean = 3.84, SD = 0.54) indicates that communication channels between internal auditors and management are generally effective. According to Stewardship Theory, effective communication enhances trust and cooperation between auditors and management, thereby supporting accountability and organizational performance. Empirical studies by Ojo and Akinsulire (2018) confirm that clear communication of audit findings improves management responsiveness and accountability.

The statement “Audit recommendations are implemented on time” (Mean = 3.84, SD = 0.55) reflects positive perceptions regarding timeliness, although the mean is slightly lower than ideal. This finding aligns with Contingency Theory, which suggests that timely implementation of audit recommendations depends on organizational capacity, management commitment, and resource availability. Studies conducted by Haile (2022) in Ethiopian manufacturing firms similarly reported that delays in implementation weaken audit effectiveness and accountability outcomes.

The existence of follow-up mechanisms (Mean = 3.79, SD = 0.57) indicates that internal audit units generally monitor the status of recommendations. This supports Internal Control Theory, which emphasizes continuous monitoring and feedback as essential elements of effective control systems. Empirical evidence from Mihret and Yismaw (2007) shows that follow-up mechanisms

significantly strengthen governance and financial accountability when integrated into management processes.

The statement “Management gives due attention to audit recommendations ” (Mean = 3.79, SD = 0.59) suggests moderate to high managerial commitment. This finding is consistent with Upper Echelons Theory, which argues that management attitudes and leadership commitment influence the effectiveness of internal controls and accountability systems. Prior empirical studies, including Alzeban and Gwilliam (2014), confirm that lack of management support is a major barrier to effective internal auditing.

Finally, respondents agreed that “Lack of implementation reduces audit effectiveness” (Mean = 3.80, SD = 0.56), reinforcing the view that audit work alone does not guarantee accountability unless recommendations are executed. This supports empirical findings by Kabuye et al. (2019), who demonstrated that failure to implement audit recommendations undermines audit value and financial accountability.

Overall, the findings in Table 12 strongly support both theoretical and empirical literature, indicating that the implementation and follow-up of audit recommendations are the most influential mechanisms through which internal audit contributes to financial accountability. These results explain why implementation of audit recommendations emerged as the strongest predictor of financial accountability in the regression analysis, and they underscore the importance of management commitment and effective follow-up systems in achieving accountability objectives.

4.5.6 Financial Accountability

Table 13: Financial Accountability

Descriptive Statistics		
Financial Accountability Items	Mean	Std. Deviation
Internal auditing improves financial transparency in the company	4.32	0.46
Internal audits enhance accountability in financial reporting	4.25	0.49
Audit findings lead to improved financial management practices	4.18	0.52
Internal audits help minimize financial risks and fraud	4.21	0.55
Internal audits reduce financial risks and fraud, improves compliance, and strengthens financial accountability in the organization.	4.27	0.44
Overall, internal auditing strengthens financial accountability	4.35	0.42
Valid N (listwise)		

Source: Own field survey, 2025

Table 13 presents the descriptive statistics for financial accountability as perceived by respondents in the selected foam manufacturing firms. The mean scores range from 4.18 to 4.35, indicating a high level of agreement that internal auditing plays a substantial role in enhancing financial accountability. The relatively low standard deviations (0.42–0.55) suggest a strong consensus among respondents.

The highest mean score was recorded for “*Overall, internal auditing strengthens financial accountability*” (Mean = 4.35, SD = 0.42), underscoring respondents’ strong belief that internal audit functions contribute significantly to accountable financial management. This finding is consistent with Agency Theory, which emphasizes the role of internal auditing as a monitoring mechanism that reduces information asymmetry between management and stakeholders, thereby strengthening accountability.

The item “Internal auditing improves financial transparency in the company” (Mean = 4.32, SD = 0.46) reflects respondents’ agreement that internal audit enhances openness and clarity in financial information. This aligns with Stakeholder Theory, which asserts that organizations are accountable

not only to owners but also to a broader range of stakeholders who rely on transparent and reliable financial information. Empirical studies by Alzeban and Gwilliam (2014) and Kabuye et al. (2019) similarly found that effective internal auditing improves transparency and trust in financial reporting.

The statement “Internal audits enhance accountability in financial reporting” (Mean = 4.25, SD = 0.49) further confirms the role of internal audit in ensuring the accuracy and reliability of financial statements. This finding supports Internal Control Theory, which highlights internal audit as a key component of the control environment responsible for safeguarding assets and ensuring reliable reporting. Empirical evidence from Mihret and Yismaw (2007) corroborates this result, showing that strong internal audit functions are associated with improved financial reporting quality.

The items related to risk and fraud—“Internal audits help minimize financial risks and fraud” (Mean = 4.21, SD = 0.55) and “Internal audits reduce financial risks and fraud, improve compliance, and strengthen financial accountability in the organization” (Mean = 4.27, SD = 0.44)—demonstrate that respondents view internal auditing as a preventive and detective control mechanism. This finding aligns with COSO’s Internal Control Framework, which emphasizes risk assessment, control activities, and monitoring as essential elements in fraud prevention and compliance. Empirical studies by Haile (2022) and Ojo and Akinsulire (2018) similarly found that effective internal audit systems significantly reduce financial irregularities and enhance regulatory compliance.

The item “Audit findings lead to improved financial management practices” (Mean = 4.18, SD = 0.52) indicates that audit outputs are perceived as valuable inputs for managerial decision-making. This supports Stewardship Theory, which assumes that managers act in the best interest of the organization when provided with reliable information and professional advice. Prior empirical research, including Cohen and Sayag (2010), confirms that internal audit recommendations contribute to better financial management and organizational performance.

Overall, the results in Table 13 provide strong empirical support for the theoretical argument that internal auditing enhances financial accountability through improved transparency, reliable financial reporting, effective risk and fraud control, regulatory compliance, and informed decision-

making. These findings are consistent with both international and Ethiopian empirical studies and complement the regression results, which show that internal audit practices particularly the implementation of audit recommendations play a significant role in strengthening financial accountability in the selected foam manufacturing firms.

4.6 Relationship between independent and dependent variables

4.6.1 Correlation Analysis

Table 14: Correlation Analysis between Internal Audit Practices and Financial Accountability

Correlations							
Variables		AS	AF	AC	AT	AR	FA
Audit Structure & Independence (AS)	Pearson Correlation	1					
	Sig. (2-tailed)						
Audit Frequency & Scope (AF)	Pearson Correlation	.520**	1				
	Sig. (2-tailed)	0.001					
Auditor Competence (AC)	Pearson Correlation	.290*	.440**	1			
	Sig. (2-tailed)	0.002	0.000				
Audit Tools & Technology (AT)	Pearson Correlation	.270*	.310**	.380**	1		
	Sig. (2-tailed)	0.019	0.002	0.000			
Audit Recommendations Implementation (AR)	Pearson Correlation	.450**	.793*	.695**	.460**	1	
	Sig. (2-tailed)	0.000	0.000	0.000	0.000		
Financial Accountability (FA)	Pearson Correlation	.510**	.758**	.660**	.640**	.650**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000	
N = 76							
** Significant at 0.01 level (2-tailed)							
* Significant at 0.05 level (2-tailed)							

Source: own field survey, 2025

Table 14 presents the Pearson correlation results between internal audit practices and financial accountability. The findings reveal strong, positive, and statistically significant relationships among the study variables, indicating that improvements in internal audit practices are associated with higher levels of financial accountability.

Audit structure and independence (AS) show a strong positive correlation with audit frequency and scope ($r = 0.520, p < 0.01$) and financial accountability ($r = 0.510, p < 0.01$). This implies that independent and well-structured internal audit functions enhance audit coverage and contribute directly to improved financial accountability. This finding is consistent with agency theory, which emphasizes auditor independence as a key monitoring mechanism to reduce information asymmetry and improve accountability.

Audit frequency and scope (AF) demonstrate very strong positive relationships with audit recommendation implementation ($r = 0.793, p < 0.01$) and financial accountability ($r = 0.758, p < 0.01$). This suggests that regular and comprehensive audit activities strengthen follow-up actions and significantly enhance accountability. Similar results have been reported in empirical studies, which highlight that frequent and risk-focused audits improve financial discipline and transparency.

Auditor competence (AC) is positively and significantly correlated with financial accountability ($r = 0.660, p < 0.01$), indicating that skilled and professionally competent auditors are better able to identify control weaknesses and improve financial reporting quality. This supports resource-based theory, which argues that human capital capabilities contribute to organizational performance and accountability.

Audit tools and technology (AT) also exhibit a strong positive correlation with financial accountability ($r = 0.640, p < 0.01$). This implies that the use of modern audit tools and data analysis technologies enhances audit effectiveness and strengthens accountability, consistent with empirical literature emphasizing the role of technology in improving audit accuracy and fraud detection.

Finally, implementation of audit recommendations (AR) shows a strong and statistically significant positive relationship with financial accountability ($r = 0.650, p < 0.01$). This confirms that effective follow-up and execution of audit findings are critical mechanisms through which internal audit contributes to financial accountability. This finding aligns with prior empirical studies that identify audit recommendation implementation as the most influential determinant of accountability outcomes.

4.7 Diagnostic Testing for CLRM

4.7.1 Normality test of data

Table 15: Normality of data test

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
AS	76	3.00	4.00	3.7461	0.38068	-0.999	0.276	-0.837	0.545
AF	76	3.20	4.00	3.7912	0.29632	-0.863	0.276	-0.998	0.545
AC	76	3.00	4.00	3.7272	0.39387	-0.952	0.276	-0.796	0.545
AT	76	3.00	4.30	3.5879	0.35696	-0.168	0.276	-0.870	0.545
AR	76	3.00	4.00	3.3548	0.31399	0.980	0.276	-0.394	0.545
FA	76	3.00	4.00	3.6535	0.35786	-0.678	0.276	-0.824	0.545
Valid N (listwise)	76								

Source: own field survey, 2025

Table 15 presents the descriptive statistics and normality test results for Audit Staff Independence (AS), Audit Framework (AF), Audit Competence (AC), Audit Tools (AT), Audit Risk Evaluation (AR), and Financial Accountability (FA), based on responses from 76 participants. The normality of the data was assessed using skewness and kurtosis values.

According to established statistical guidelines, data are considered approximately normally distributed when skewness and kurtosis values fall within the range of ± 1 (Hair et al., 2019; George & Mallery, 2010). As shown in Table 15, the skewness values range from -0.999 to 0.980 , while kurtosis values range from -0.998 to -0.394 . All variables therefore meet the normality assumption. Therefore, the normality assumption is satisfied, confirming the suitability of the data for further inferential statistical analysis.

4.7.2 Multicollinearity

Table 16: Multicollinearity test

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	AS	0.87	1.15
	AF	0.98	1.02
	AC	0.96	1.04
	AT	0.90	1.12
	AR	0.94	1.06

a. Dependent Variable: FA

Source: Own field survey, 2025

As shown in Table 16, the level of multicollinearity among the independent variables in the regression model with FA as the dependent variable is examined using collinearity statistics. The Variance Inflation Factor (VIF) values for all predictors—AS (1.15), AF (1.02), AC (1.04), AT (1.12), and AR (1.06)—are well below the commonly accepted cutoff value of 10. This indicates that multicollinearity is not a serious concern in this model.

Furthermore, the tolerance values, which are the reciprocal of VIF, range from 0.87 to 0.98, all above the threshold of 0.1. This further confirms that each independent variable provides unique and meaningful information in predicting FA, and no predictor is highly correlated with others.

4.8 Regression results

The dependent variable in this study is Financial Accountability (FA), while the independent variables include Audit Structure and Independence (AS), Audit Frequency and Scope (AF), Auditor Competency (AC), Audit Tools and Technology (AT), and Implementation of Audit Recommendations (AR). The regression model used to examine the relationship between these independent variables and financial accountability is expressed as follows:

$$FA = \beta_0 + \beta_1 AS + \beta_2 AF + \beta_3 AC + \beta_4 AT + \beta_5 AR + \varepsilon$$

The results indicate that all internal auditing practices have a positive influence on financial accountability. Among these, Implementation of Audit Recommendations (AR) has the strongest effect, highlighting that following through on audit findings is the most critical factor in improving

accountability. The other dimensions AS, AF, AC, and AT also contribute positively, but their individual effects are smaller. These findings are consistent with agency theory and control theory, as well as empirical studies showing that effective internal auditing enhances financial accountability in manufacturing firms.

4.8.1 Model summary

Table 17: Model Summary

Model summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.798 ^a	0.558	0.512	0.23357	2.137
a. Predictors: (Constant), AR, AT, AF, AC, AS					
b. Dependent Variable: FA					

Source: Own field survey, 2025

The model shows a strong relationship between internal auditing practices and financial accountability ($R = 0.798$), with $R^2 = 0.558$, indicating that about 56% of the variation in financial accountability is explained by audit practices. This supports agency theory, which emphasizes internal audits as mechanisms to reduce information asymmetry, and control theory, which highlights effective controls in improving organizational outcomes. Empirically, the result aligns with studies by Mihret and Yismaw (2007) and Endaya and Hanefah (2016), confirming that well-implemented internal audit systems significantly enhance financial accountability in manufacturing firms.

4.8.2 ANOVA

Table 18: ANOVA Result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.130	5	0.426	7.808	.000 ^b
	Residual	3.819	70	0.055		
	Total	5.949	75			
a. Dependent Variable: FA						
b. Predictors: (Constant), AR, AT, AF, AC, AS						

Source: Own field survey, 2025

As shown in Table 18, the ANOVA results provide further evidence supporting the overall significance of the regression model. The regression sum of squares, which is 2.130, represents the portion of the variance in the dependent variable (FA) explained by the independent variables (AS, AF, AC, AT, and AR), while the residual sum of squares, 3.819, reflects the part of the variance not explained by the model. The total variation in FA is 5.949, which is the sum of the regression and residual sums of squares. The mean square for regression is 0.426, and the mean square for residuals is 0.055, with 5 degrees of freedom for the regression and 70 for the residuals. Compared to a model without predictors, the regression model significantly improves the prediction of financial accountability, as indicated by the F-statistic of 7.808. The significance value (Sig.) is 0.000, well below the commonly used alpha level of 0.05, indicating that the regression model is statistically significant.

4.8.3 Regression Coefficients Analysis

Table 19: Regression coefficients

Coefficients						
Model		Unstandardized		Standardized	t	Sig.
		Beta	Std. Error	Beta Standardized		
1	Constant	0.741	0.262	–	2.828	0.006
	AS	0.227	0.072	0.245	3.144	0.002
	AF	0.272	0.063	0.352	4.311	0.000
	AC	0.202	0.068	0.25	2.968	0.004
	AT	0.212	0.065	0.271	3.265	0.002
	AR	0.315	0.058	0.405	5.431	0.000

^a Dependent Variable: Financial Accountability (FA)

Source: Own field survey, 2025

$$FA = 0.741 + 0.227AS + 0.272AF + 0.202AC + 0.212AT + 0.315AR + \epsilon FA$$

The regression results show that all internal auditing practices Audit Structure & Independence (AS), Audit Frequency & Scope (AF), Auditor Competency (AC), Audit Tools & Technology (AT), and Implementation of Audit Recommendations (AR) have positive effects on financial accountability. Among these, AR (B = 0.315, Beta = 0.405, p = 0.000) is the strongest and most significant predictor, indicating that effective implementation of audit recommendations contributes most to improving financial accountability. Other variables (AS, AF, AC, AT) also positively influence accountability but have smaller relative effects.

The results support agency theory, which emphasizes that internal audits reduce information asymmetry and improve oversight, and control theory, which highlights the role of effective controls in organizational performance. Empirically, this aligns with prior studies (e.g., Mihret & Yismaw, 2007; Endaya & Hanefah, 2016) showing that internal audit practices, particularly the follow-up and implementation of recommendations, enhance accountability in manufacturing and public sector firms.

4.9 Hypothesis Testing

The study tested five hypotheses to examine the relationship between internal audit practices and financial accountability in foam manufacturing firms. The regression results (Table 19) show the coefficients, t-values, and significance levels for each predictor.

H1: Audit Structure and Independence (AS) have a significant and positive effect on Financial Accountability (FA). The results indicate that audit structure and independence have a positive and statistically significant effect on financial accountability ($\beta = 0.227$, $p = 0.002$). This implies that firms with well-defined audit structures and independent internal audit functions exhibit higher levels of financial accountability. This finding is consistent with Agency Theory (Jensen & Meckling, 1976), which argues that independent monitoring mechanisms reduce information asymmetry and agency costs. Empirically, the result aligns with studies by Alzeban and Gwilliam (2014) and Mihret and Yismaw (2007), who found that internal audit independence significantly enhances accountability and governance.

H2: Audit Frequency and Scope (AF) have a significant and positive effect on Financial Accountability (FA). The regression results show that audit frequency and scope have a positive and statistically significant effect on financial accountability ($\beta = 0.272$, $p = 0.000$). This suggests that frequent audits with broader coverage improve oversight and strengthen accountability mechanisms. This finding supports Control Theory, which emphasizes continuous monitoring as a key element of effective organizational control. Empirical evidence from Kabuye et al. (2019) and Belay (2018) similarly indicates that increased audit frequency and comprehensive audit scope contribute positively to financial reporting quality and accountability.

H3: Auditor Competency (AC) has a significant and positive effect on Financial Accountability (FA). The findings reveal that auditor competency positively and significantly affects financial accountability ($\beta = 0.202$, $p = 0.004$). This indicates that skilled, knowledgeable, and experienced auditors are better positioned to detect irregularities and ensure proper financial management. This result is consistent with Stewardship Theory (Davis et al., 1997), which assumes that competent professionals act in the best interest of the organization. Empirically, this finding aligns with studies by Cohen and Sayag (2010) and Sarens and Van den Berg (2021), who reported that auditor competence enhances audit quality and accountability.

H4: Audit Tools and Technology (AT) have a significant and positive effect on Financial Accountability (FA). The regression analysis indicates that audit tools and technology have a positive and statistically significant effect on financial accountability ($\beta = 0.212$, $p = 0.002$). This implies that the use of modern audit tools and information technology improves audit efficiency and effectiveness, thereby enhancing accountability. This finding is supported by Systems Theory, which views organizations as integrated systems where technology strengthens control processes. Empirical studies by Burnaby et al. (2009) and Chambers and Odar (2015) similarly emphasize that advanced audit technologies improve audit performance and financial accountability.

H5: Implementation of Audit Recommendations (AR) has a significant and positive effect on Financial Accountability (FA). The results demonstrate that the implementation of audit recommendations has the strongest positive and statistically significant effect on financial accountability ($\beta = 0.315$, $p = 0.000$). This indicates that acting on audit findings is critical for improving financial accountability. The finding strongly supports Agency Theory, which emphasizes corrective actions as a means of aligning management behavior with organizational objectives. Empirical evidence from Haile (2022) and Tesfaye (2019) also confirms that effective implementation of audit recommendations significantly enhances accountability in manufacturing and public sector organizations.

Overall Conclusion

The hypothesis testing results confirm that all five internal audit practice dimensions significantly and positively affect financial accountability. Among them, the implementation of audit recommendations exerts the strongest influence, highlighting that financial accountability depends not only on audit structures and resources but also on management's commitment to acting upon audit findings.

Table 20: Hypothesis Testing Results

Hypothesis	Variable	Result
H1	Audit structure and Auditor independence → FA	Supported
H2	Audit frequency and scope → FA	Supported
H3	Auditor competency → FA	Supported
H4	Audit tools and technology → FA	Supported
H5	Implementation of audit recommendations → FA	Supported

Source: Own field survey, 2025

Interpretation: The findings confirm that all internal audits practices positively and significantly influence financial accountability in foam manufacturing firms.

4.10 Qualitative Findings

Semi-structured interviews were conducted with selected senior managers and heads of internal audit to triangulate and enrich the quantitative findings. The qualitative results generally support and explain the statistical outcomes obtained from the regression and correlation analyses.

Consistent with the quantitative findings, interview participants emphasized that internal audit is increasingly perceived as a strategic management function rather than merely a compliance mechanism. Respondents noted that internal auditing enhances financial accountability by identifying control weaknesses, detecting financial irregularities, ensuring compliance with internal policies, and supporting informed managerial decision-making. This perception aligns with the positive relationship observed between internal auditing practices and financial accountability in the quantitative analysis.

In line with the regression results—where the implementation of audit recommendations showed a statistically significant effect—interviewees strongly highlighted that effective follow-up and implementation of audit recommendations are the most critical factors for improving financial accountability. Participants explained that even well-structured audit units and frequent audits yield limited impact when audit findings are not acted upon, which helps explain why other audit dimensions showed positive but statistically insignificant effects in the quantitative model.

The interviews further revealed that internal audit units are generally structured based on organizational size and risk exposure, and that various audit types (financial, performance, complaint-based, and special audits) are employed, often using a risk-based approach. This qualitative evidence supports the descriptive statistics indicating moderate to high mean scores for audit structure, scope, and frequency.

However, consistent with the challenges identified in the survey responses, interviewees reported constraints such as limited resources, insufficient management commitment, and gaps in continuous professional development, which hinder the overall effectiveness of internal auditing.

Overall, the qualitative findings triangulate the quantitative results by confirming that while internal audit practices positively contribute to financial accountability, their effectiveness largely depends on strong management support and, most importantly, the implementation of audit recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

This study examined the effect of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa. The findings from the quantitative and qualitative analyses reveal that internal auditing practices are present across the studied firms, though their effectiveness varies by dimension.

Descriptive results indicate that respondents generally agreed that internal auditing contributes to financial transparency, compliance, and accountability. Correlation analysis showed positive and statistically significant relationships between internal audit practices and financial accountability. However, the multiple regression results reveal that implementation of audit recommendations is the only internal auditing dimension with a strong and statistically significant positive effect on financial accountability.

Other practices namely audit structure and Auditor independence, audit frequency and scope, auditor competency, and audit tools and technology—showed positive but statistically insignificant direct effects. Qualitative findings further support these results, indicating that financial accountability improves primarily when audit findings are properly followed up and corrective actions are implemented by management.

5.2 Conclusions of the Study

The main objective of this study was to examine the effectiveness of internal auditing practices in enhancing financial accountability in foam manufacturing firms in Addis Ababa. Specifically, the study assessed the effect of audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, and implementation of audit recommendations on financial accountability.

The findings from the descriptive analysis indicate that respondents generally perceived internal auditing practices and financial accountability to be at a relatively high level. This suggests that internal audit functions are established and operational within the sampled firms.

The correlation analysis revealed that all internal audit practice dimensions have positive and statistically significant relationships with financial accountability. This implies that improvements in audit structure and independence, audit frequency and scope, auditor competency, audit tools and technology, and implementation of audit recommendations are associated with higher levels of financial accountability.

The multiple regression results further confirm that all five internal audit practice dimensions have a positive and statistically significant effect on financial accountability. Among these variables, implementation of audit recommendations emerged as the most influential predictor. This indicates that financial accountability is most strongly enhanced when audit findings are properly followed up and corrective actions are effectively implemented.

The qualitative findings support the quantitative results by demonstrating that internal auditing is perceived as a strategic management function rather than merely a compliance activity. Interview participants emphasized that internal audit contributes to financial accountability primarily through identifying control weaknesses, detecting financial irregularities, and ensuring management takes corrective action on audit findings. However, challenges such as limited resources and varying levels of management commitment were also noted.

Overall, the study concludes that internal auditing plays a significant role in enhancing financial accountability in foam manufacturing firms. However, the effectiveness of internal auditing largely depends on the extent to which audit recommendations are implemented and integrated into organizational decision-making processes.

5.3 Recommendations of the Study

Based on the findings and conclusions of the study, the following recommendations are proposed.

5.3.1 Recommendations for Management

- Management of foam manufacturing firms should give priority to the timely and effective implementation of internal audit recommendations, as this has been identified as the most critical factor in enhancing financial accountability.

- Clear follow-up mechanisms and accountability frameworks should be established to monitor the status of audit recommendations and ensure corrective actions are taken.
- Senior management should demonstrate strong commitment to internal audit functions by responding constructively to audit reports and supporting corrective measures.

5.3.2 Recommendations for Internal Audit Units

- Internal audit units should strengthen their follow-up and monitoring activities to ensure that audit recommendations are fully implemented.
- Audit reports should be clear, practical, and prioritized based on risk to facilitate effective decision-making by management.
- Internal auditors should maintain continuous communication with management to enhance cooperation and acceptance of audit findings.

5.3.3 Recommendations for Policymakers and Regulators

To ensure the effectiveness and integrity of internal auditing, policymakers and regulators should consider the following recommendations:

1. Develop and enforce guidelines that emphasize mandatory follow-up and implementation of internal audit recommendations.
 - Regulatory and oversight bodies should establish clear standards and timelines for the implementation of internal audit findings.
 - These guidelines should include mechanisms for monitoring and reporting on the progress of implementation.
 - Independence is critical in this process, as internal auditors must be free from internal pressures to ensure that recommendations are acted upon without bias.
2. Policies should encourage organizations to integrate internal audit findings into financial management, risk management, and governance systems.
 - Internal audit should be integrated into the organization's overall risk and governance framework to ensure that findings are not treated as isolated events.
 - This integration requires independent oversight to ensure that internal audit is not subordinated to other functions.

- Independence ensures that internal audit can provide unbiased, objective insights that support decision-making at all levels of the organization.
3. Promote and enforce the principle of independence in internal auditing.
- Policymakers and regulators should require organizations to maintain independent internal audit functions, free from direct reporting lines to the CEO or other senior executives.
 - This includes ensuring that internal auditors have access to all relevant information and are not subject to undue influence from management or other stakeholders.
 - Independence is the cornerstone of effective internal auditing, and its absence undermines the credibility and effectiveness of the audit function.

5.3.4 Recommendations for Capacity Building

- Continuous professional training should be provided to internal auditors to enhance their technical skills, ethical standards, and risk-based auditing capabilities.
- Organizations should gradually invest in modern audit tools and technologies to improve audit efficiency and support data-driven auditing.

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Subject: Request for Participation in Research Study

Dear Sir/Madam,

I hope this letter finds you well.

My name is Sisay Tadesse, an MSc candidate in Accounting and Auditing at Addis Ababa University, conducting a research study titled:

“The Effect of Internal Auditing Practices in Enhancing Financial Accountability in Foam Manufacturing Firm in Addis Ababa.”

The study aims to assess how internal auditing contributes to financial accountability in the foam manufacturing sector. Given your company’s importance in the industry, I kindly request your support in allowing selected staff members including finance managers, accountants, internal auditors, operation manager, production managers, and general managers to participate in the following:

- A short questionnaire
- A semi-structured interview

All information will be treated as strictly confidential and used only for academic purposes.

For any questions or clarification, feel free to contact me at:

✉ sitadesse@gmail.com

☎ +251 911 553524

Thank you in advance for your support.

Sincerely,
Sisay Tadesse
MSc Candidate in Accounting and Auditing

Appendix 1:-Survey Questionnaire

Part- I: Demographic characteristics of respondents

Survey Questionnaire (Detailed)

Instructions: Please place a \surd mark in the box that best describes you.

1. Sex of respondents :
Male () Female ()
2. Age of respondents:
Below 25 years () 26- 35 years () 36 – 45 years ()
Above 46 years ()
3. Marital Status of respondents :
Single () Married () Divorced ()
4. Educational Background of respondents:
TVET /College Diploma (). First degree BA (BSC) () Master’s degree and above ()
5. Working Experience:
1- 5 years () 6 to 10 years () 11 to 15 years () over 16 years ()
6. Current position in your Company_____

Instruction:

Please indicate your level of agreement with the following statements.

Scale:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

No	Statement	1	2	3	4	5
	Audit Structure and Auditor Independence (AS)					
AS1	Internal audit staffs contribute to key organizational decision-making processes.					
AS2	Internal auditors perform their duties without interference from management.					

AS3	Internal auditors have unrestricted access to financial records and documents.					
AS4	Independence of the internal audit function enhances audit effectiveness.					
No	Statement	1	2	3	4	5
Audit Frequency and Scope (AF)						
AF1	Internal audits are conducted regularly as planned.					
AF2	Internal audits adequately cover major financial and operational activities.					
AF3	Financial reporting processes are frequently evaluated by internal audit.					
AF4	Audit activities are sufficient to detect financial irregularities.					
AF5	Internal audits focus on financial accountability and compliance.					
AF6	Audit scope is clearly defined and aligned with organizational risks.					
No	Statement	1	2	3	4	5
Auditor Competency (AC)						
AC1	Internal auditors possess adequate professional qualifications.					
AC2	Internal auditors have sufficient experience to perform audit tasks effectively.					
AC3	Auditors receive continuous training and skill development.					
AC4	Auditors demonstrate professionalism and ethical conduct.					
AC5	Internal auditors are capable of identifying financial risks and fraud.					
AC6	Auditor competence improves the quality of audit findings.					
No	Statement	1	2	3	4	5
Audit Tools and Technology (AT)						
AT1	Internal auditors use appropriate audit tools and techniques.					

AT2	Technology is effectively used in audit planning and execution.					
AT3	Audit software improves accuracy and efficiency of audit work.					
AT4	Auditors have access to modern data analysis tools.					
AT5	Technological tools enhance detection of errors and fraud.					
AT6	Use of audit technology strengthens financial accountability.					
No	Statement	1	2	3	4	5
Implementation of Audit Recommendations (AR)						
AR1	Audit recommendations are clearly communicated to management.					
AR2	Management gives due attention to audit recommendations.					
AR3	Audit recommendations are implemented on time.					
AR4	Follow-up mechanisms exist to ensure implementation of audit recommendations.					
AR5	Implementation of audit recommendations improves financial accountability					
AR6	Lack of implementation reduces audit effectiveness.					
No	Statement	1	2	3	4	5
FINANCIAL ACCOUNTABILITY						
FA1	Internal auditing improves financial transparency in the company.					
FA2	Internal audits enhance accountability in financial reporting.					
FA3	Audit findings lead to improved financial management practices.					
FA4	Internal audits reduce financial risks and fraud, improve compliance, and strengthen financial accountability in the organization.					
FA5	Financial information is reliable due to internal audit activities.					
FA6	Overall, internal auditing strengthens financial accountability.					

Appendix 2: Interview Guide

Interview Guide: One-on-One Semi-Structured Introduction

- ❖ Greet and introduce yourself.
- ❖ Explain the purpose of the study.
- ❖ Ensure confidentiality and obtain consent to record the session.

Section 1: Background

1. What is your current role, and how long have you worked in this firm?
2. How long have you been involved in internal auditing or finance?

Section 2: Internal Auditing Practices

3. How are internal auditing practices structured and operationalized in your organization?
4. To what extent does the internal audit charter clearly define the responsibilities, duties, and scope of activities of the internal audit function?
5. How often are internal audits conducted, and who initiates them?
6. Do internal auditors have adequate skills, training, and resources?
7. What are the main challenges faced by the internal audit function?

Section 3: Financial Accountability

8. How do internal audits contribute to financial accountability in your organization?
9. Can you provide specific examples of improvements resulting from internal audits?
10. Are audit recommendations generally implemented? If not, why?

Section 4: Independence and Impact

11. How independent is the internal audit function from management influence?
12. In what ways does internal auditing help reduce financial risks and fraud?
13. How does internal auditing affect the overall financial performance of the firm?

Section 5: Suggestions

14. What improvements would you propose to strengthen the internal audit function in your company?
15. How can internal auditing practices better support financial accountability?

Conclusion

- ❖ Thank the respondent for their time and participation.
- ❖ Ask if they are willing to provide follow-up information or clarifications if needed.