



Addis Ababa University

Faculty of Business and Economics

Department of Accounting

Master's Thesis on: -

**Perceptions of Internal Auditors on the effectiveness of Internal Audit Service
in Ethiopian Charities and Societies: the case of selected Foreign Charities
(International Non-Government Organizations)**

Submitted to Degefe Duressa (PhD)

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STUDENT'S DECLARATION

I undersigned declare that this research report is my original work and has not been presented for a degree or diploma in any other university, and all the materials used for this study have been duly acknowledged.

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This research report has been submitted for examination with my approval as a university advisor.

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This is to certify that the thesis prepared by Solomon Gebremedhin, entitled: Perceptions of Internal Auditors on the effectiveness of Internal Audit Service in Ethiopian Charities and Societies: the case of selected Foreign Charities and submitted in partial fulfilment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

This paper examined the perception of internal auditors on the effectiveness of internal auditor service in Ethiopian Charities and Societies the case of selected Foreign Charities (International Non-Government Organizations) in Ethiopia. The study focuses on internal auditors and supervisors. The study established an understanding of how the internal auditors in the selected charities perceive the effect of the working environment, the independence of internal auditors and technical competency on performance of internal auditors in NGOs. Descriptive research design was adopted in this study using quantitative methods of data collection. In order to answer the research questions, 81 relevant questionnaires were developed and distributed to selected participants in the survey. The study population was 10 Head of internal audit and 60 members of staff in the 10 Foreign Charities that have internal audit unit with 5 and above member of staff and which all have country office in Addis Ababa. The study used primary data collected from semi-structured questionnaires and was collected from each sampled foreign charities. The researcher analysed the collected data using descriptive statistics and presented the data in terms of percentages, frequency distribution and tables. Based on the findings of this study, the working environment such as management support, availability of working resources and commitment by management contributes for the effectiveness of internal audit function. The study also shows that internal audit independence and authority in mind thought, independence in appearance and examining independence contribute for the effectiveness of Internal Audit. The study concluded that internal auditors' technical competence impact the performance of the function and the audit staff need to have knowledge and skills necessary to accomplish tasks. The study recommended that internal auditors must be provided with formal audit training course and should not be permitted to audit operations which they have undertaken and the internal auditors should also proficient in process modelling software and its link to the organization overall objective.

Key words: Internal Audit working environment, Independence and Authority, Competence, internal audit performance, Ethiopian Foreign Charities and NGO

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CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

In the recent years, internal auditing (IA) has undergone dramatic changes that have extended its area of involvement in a way that allow it to add more value to a company. Traditionally, the role of IA has focused on compliance assurance, financial control and assets safeguarding. After the corporate financial scandals of the 2000's, many reforms (Sarbanes-Oxley Act 2002; Combined Code 2003; OECD 2004; IFAC 2006) have reinforced the responsibilities of IA in enhancing corporate governance mechanisms. Therefore, IA has become a value creator improving the effectiveness of risk management, control and governance systems (Bou-Raad 2000; Roth 2003; Hass et al. 2006; Cohen et al. 2010).

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process” The Institute of Internal Auditors (IIA) in its latest definition of internal auditing (IIA 2004):

Along with the development of the economy and technology, internal auditing has become an important aspect of the corporate governance in an organization. Economic crisis, corporate failures, malpractice and growth in the number of reported fraud cases has emphasized on the importance of an effective internal auditing. An effective internal auditing is crucial as it plays an important role in improving control systems, analyzing risks and providing objective assurance and consulting services (Burnaby,Hass, & Abdolmohammadi, 2006). Internal auditors become key by informing the NGO sector as a result of principle-agent relationship that exists between the donor and executive. Internal auditors help in safeguarding organization resources and are expected to give a continuous account of how the resources have been used and enable continuous assessment on whether the feedback meets donor objectives and expectations and whether these are well balanced to reduce the risks inherent in the principal-agent relationship.

Despite internal audit's contribution to the public financial management practice, there are factors that hinder the functions role. According to Van Gansberghe (2005), function is highly influenced by very limited environments for internal audit with poor internal control, poorly paid and motivated staff, lack of an ethical organizational culture, weak governance, lack of support from senior management and limited human resources. Moreover, there may also be a lack of appropriate regulations, resources and internal audit can suffer from low status and lack of independence. This study aimed to assess the perception of internal auditors on the effective Internal audit function in providing effective service for foreign charities financial management which in turn affected by working environment, management support , internal auditors independence and technical competence and auditees attitude towards the function by applying a descriptive study method.

1.2. Background of the Organization

The need to address a wide range of problems adversely affecting vulnerable groups prompted the emergence and growth of non-governmental organizations (NGOs) globally as we experience them today (De Waal, 1997: 66–68). The famine of 1970s and 1980s has largely contributed for the influx and emergence of NGOs in Ethiopia (CRDA, 2004). The modern understanding of NGOs is new to Ethiopia with a history not extending more than four decades (Desalegn, 2008:1).

The mid 1980s tragic famine drew more NGOs to be established in the country to be engaged in relief effort, (Dessalegn, Akalewold, & Endeshaw, 2008). In 2009 a proclamation No.681/2009 which governs charities/NGOs in Ethiopia has been enacted.

Accordingly, Charities in the charities and societies proclamation No.681/2009 of Ethiopia is defined as an institution which is established exclusively for charitable purposes and gives benefit to the public.

According to the proclamation, the charitable purpose and contributions expected from charities includes:- Disaster prevention and poverty alleviation, Economic and social development, Environmental protection, Animal welfare ,Arts, culture, heritage and science, Education, Health and the saving of lives, Amateur sport and youth welfare, Relief of the needy

because of age, disability, financial hardship or other disadvantage, Capacity building on the basis of the country's long term development, directions, Human and democratic rights, Promotion of ethnic, religious and gender equality, Promotion of child rights and the rights of disabled persons, Conflict resolution and reconciliation, Supporting justice and law enforcement and Other purposes prescribed by the agency.

As per December 2017 news of the Charities and Societies Agency of Ethiopia in its website there were 3,260 charities and societies. Out of this number, foreign charities comprise 433 as shown in the table 1.1. The consortiums are excluded from being considered as charities because they are groups of other charities or societies.

No.	Types of Charities and Societies	Total
1	Foreign Charities	433
2	Ethiopian Societies	447
3	Ethiopian Resident Charity	2211
4	Ethiopian Charity	118
5	Consortiums	51
	Total	3260

Table 1.1 Numbers of Charities in Ethiopia as of December 2017

Source: http://www.chsa.gov.et/resources/DecemberNews2010_30EC.pdf

According to the charities and societies proclamation number 621/2009, charities are categorized into foreign charity, Ethiopian resident charity and Ethiopian charity. As per article 2: - and sub article No. 2 of the proclamation Ethiopian charities mean those charities that are formed under the laws of Ethiopia, all of whose members are Ethiopians, generate income

from Ethiopia and wholly controlled by Ethiopians. However, they are allowed to generate income from foreign sources which is not more than 10% of their funds.

Sub article No. 3 of the proclamation states Ethiopian residents' charities mean those charities that are formed under the laws of Ethiopia and which consist of members who reside in Ethiopia and who receive more than 10% of their funds from foreign sources.

Sub article No. 4 of the proclamation foreign charities mean charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by foreign nationals or receive funds from foreign sources.

In this thesis, Foreign Charities refer to the international non-governmental organizations that involve in relief and development programs.

The national bank of Ethiopia's (NBE) annual report for the years of 2016/17 shows that the remittances of NGOs is greater than the export of coffee. Therefore, this shows that International NGOs / Foreign charities/ contribution to the country's economy and foreign currency earning is not undermining.

Table: 1.2 NGO remittances / Coffee export in Million USD

Description	2014/15	2015/16	2016/17
Remittance of NGOs	1104.5	2,039.2	1,117.2
Coffee export	780.5	722.7	883.2

Source: compiled from National Bank of Ethiopia 2016/17 Annual report

As result the fund received from donors by NGOs/Charities in the country, should be properly utilized and used for the intended purpose. One of the most important means in ensuring the effectiveness, efficiency and economical (three Es) utilization of the fund is the function of Internal Audit (IA).

1.3. Statement of the Problem

As indicated in the literature review chapter previous studies have been conducted to establish the factors that affect the performance of Internal Audit function in public sector. To the researcher knowledge, none of the studies have examined the perception of Internal Auditors on how the working environment, independence of internal auditors and the level of technical competency contribute to the performance of Internal Audit Function in NGOs sectors. Studies have only focused on the elements of the internal auditing practices in public sector. To date there has been no study to examine the performance of internal audit department in NGOs. The importance of internal audit function and internal controls are only recognized and emphasized after irregularities are discovered. Adherence to established auditing standards and increasing corporate governance awareness, having effective internal audit functions would lead to an improved internal control system and better performance of internal audit department.

Donors have both a developmental and a fiduciary interest in the quality of their partners' financial management (OECD, 2006). Internal Audit plays an important role in financial management of organizations. Internal auditors are critical in ensuring efficiency in financial management of public funds by preventing loss of the same (Eden & Moriah, 2006). Internal auditors are used to significantly enhance controls to promote transparency and accountability. There have been numerous complaints on the management of donor funds and government being not as effective in detecting and preventing the misappropriation of these funds.

Therefore, the researcher is attempting to assess the perception of Internal Auditors on factors contributing to the performance of internal auditors in the Ethiopian Civil Societies in the case of selected Foreign Charities. Specifically, the study focus on assessing the internal auditors' perception on how the working environment, auditors' independence and technical competency contribute to the performance of internal auditors in the selected foreign charities.

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to establish the perception of the internal auditors on the factors that contributes to the effective performance of the internal audit function.

1.4.2. Specific Objective

- To look into the perception of the internal auditors how the working environment contributes to the effective performance of internal auditors in foreign charities.
- To establish the perception of the internal auditors how the working environment contributes to the effective performance of internal auditors in foreign charities.
- To assess the perception of the internal auditors how the level of technical competency contributes to the effective performance of internal auditors in foreign charities.

1.5. Research Questions

The following specific questions guided the study:

- (i) How does the working environment contributes to the effective performance of internal auditors in foreign charities operating in Ethiopia?
- (ii) How does the independence of internal auditors in foreign charities contributes to the effective performance of internal auditors?
- (iii) How does the level of technical competency contributes to the effective performance of internal auditors in foreign charities operating in Ethiopia?

1.6. Importance of the Study

This study will add value to the following groups:

1.6.1. Foreign Charities as agent

Internal auditors are a keystone to ensure that the mobilized fund utilized in accordance with the donor requirement and government guidelines in the NGO sector. Enquiries on assessing the perception of internal auditors towards the factors that contribute to the performance the internal audit function in foreign charities helps to establish measures to minimize internal

auditor's challenges and improve the performance of the internal audit function by ensuring effective oversight on internal controls and in determining whether resources meant for public services are being prudently utilized with an aim of achieving the desired results. The Internal Audit function is an integral part of financial management and an instrument for improving the performance of charities. Internal auditors support charities in realizing utmost utilization of public resources as well as bringing improvements in operations which cultivate trust among those who have a stake and the beneficiaries.

1.6.2. Donor Agencies as principal

The study provides vital support to agencies like the USAID, EU, and UN Agencies like UNHCR, UNICEF and WFP and others that support Charities financial management. The research brought to light the factors contributes to the efficiency of the internal auditors in financial management. The research work is also of significance to ensure donor compliance and requirement and to improve the control environment of the organization by assessing efficiency and operating effectiveness. This would enable them formulate strategies that would improve effective internal control system and enhance internal auditors performance in grant financial management.

1.6.3. Policy Makers as governing body

The results of the study will give an added feedback to public policymakers in Ethiopia as it provides knowledge on factors that contributes to effective performance of internal auditors in the NGO sector and formulates policies that would enhance effectiveness of internal auditors and improve internal audit performance. The government may also utilize the result of this study to develop guidelines for effective monitoring of the activities of NGOs.

1.6.4. Scholars and Academicians for further study

This research serves as a reference material to person(s) who would like to carry out research related to this area and forms a basis for future research of challenges affecting performance of internal auditors in the NGO sector as the forms a foundation for further research on internal

auditors in NGO sector. This research also may help to generate future research on the effectiveness of the Internal Audit Function, and will suggest directions for such studies

1.7. Structure of the study

This study is organized into five chapters. Chapter 1 provides the Introduction of the study which comprises background of the study, problem statement, research questions, research objectives and importance of the research. Chapter 2 contains literature review and previous research that are related to this study. The review presented in this chapter includes the overview of Internal Auditors working environment, Internal Auditors Independence and Internal Auditor Competency. Chapter 3 describes the research methodology employed in the study includes the research design, population and sample design, size and selection, data collection and analysis methods are also discussed in this chapter. Chapter 4 presents an analysis and interpretation of the results of the study. This chapter will discuss the requested responses to the survey form and an interpretation of the statistical findings.

Finally, Chapter 5 summarizes and concludes the whole thesis and highlight future research directions. It presents the recommendations and highlights the research limitations and finally, future research directions are presented in this chapter.

CHAPTER TWO:

2. LITERATURE REVIEW

2.1. INTRODUCTION

This chapter reviews the existing research literature on the factors contributes to the effective performance of internal auditors' in NGO sector. In specific the chapter discusses the extent to which working environment affects the performance of internal auditors; the extent to which internal auditors' independence and authority affect the performance of internal auditors'; and the extent to which technical competency affects performance of internal auditors'.

2.2. Internal Auditors Working Environment

In most cases, organizations' internal auditor's role is guided by the management who outlines authority, independence and the scope of duty for internal auditors in a written policy document called manuals which is approved by institution's a board member and in turn becomes of importance for reference and reading materials for top management of the organization (Paape, 2007). The skills, knowledge and objectivity of qualified internal auditors are important to the firm's internal audit unit and protect against any threat to controls and efficiency in management of public resources (IIA, 2004). The huge role of internal auditors requires that they always follow the laid down procedures developed by IIA (Ramsay, 2002).

The other function of internal auditors is to achieve transparency and high level of accountability in management of utilization of public finances and achieving expected institution performance (Shuttleworth, 2008). For an internal auditor to always perform their roles well, they have to work in a conducive working environment. Key factors such as management support, availability of working resources, independence of internal auditors and commitment by management influence internal auditor's performance (Smith, Normah, Zulkarnain & Ithnahaini, 2001).

Most institutions put in place control systems such as internal auditing to promote efficiency in financial management and to effectively monitor the operational performance of individual departments. Foreign Charities are normally offered better salary and benefit packages to employees to make the program implementation effective and efficient and to attract and retain the most competent and qualified staff (Maletta, 2013).

The basic roles of Internal auditors' activities are directed towards evaluating whether operations were carried out in accordance with the set rules and regulations, set governance structures as well as systems that manage information in a bid to promote preciseness and efficiency in undertaking transactions (Stoner, 1994). In addition, internal auditors evaluate issues of integrity in a firm, measure systems and information flow to attain accountability and transparency in financial reporting (IIA, 2004). The other function of internal auditors is to offer direction on the best measures to adverse occurrence of chances or deficits that may arise, as well as providing certainty to institutions audit committee's and top management in ensuring objectives are well set (Owler & Brown, 2009)

The internal auditor roles focus on improving corporate governance in an institutionalized context which is the basis for the adoption of the institutional theory. These then demands for greater scrutiny of the organization's financial reporting to safeguard the interest of the stakeholders. Evaluation of the internal auditor's role cannot be avoided particularly where the function is a key feature of organizational effectiveness (Dalila, 2013).

Fundamentally, internal auditors' roles have now become much more essential as a control within organizations and a key to effective risk management. Internal auditors are heavily involved in the organization in the continuous internal audit process and ultimately share with the boards their recommendations which are expected to contribute to the organization's objectives (Jamal, 2011). Similarly, while performing their roles, all measures have to be taken to maintain their independence, authority and objectivity, as a result of being too involved in the organizations operations (Cattryse, 2014). According to the United Nations, the preferred

qualities for good governance are effectiveness, transparency, responsiveness and public accountability.

2.3. Internal Auditors Independence and Authority

Accountants have acknowledged that internal auditor independence is important to the validity of auditors as a profession due care. The independence of internal auditors should be the backbone of the audit environment. Internal Auditor independence is very vital to user's financial reporting confidence (Arens et.al., 1999). Auditor independence is defined by (Gay and Simnett.2003) as "ability to with stand pressure from management influence when conducting an audit or providing audit-related services, so that the professional integrity of the auditor is not compromised". Independence includes the qualities of integrity, objectivity and professional skapitsm. An Internal Auditor should maintain objectivity and be free from conflict of interest in performing audit engagement quality review and risk assessment standards, the numerous reforms put into place in the wake of the financial crisis that affect the financial services sector. EC Green paper (2011) state situations where company has appointed the same audit firm for decades look unsuited with desirable standards of independence.

Independence can be explained as follows in respect of Abu-Azza, (2012):

"The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his/her opinion." Abu-Azza, (2012)

Similarly, Institute of Internal Auditors (IIA) 1100 independence standard states about independence as 'internal audit activity should be independent in performing their work' (IIA, 2011). The standard state word by word about independence as follows:

"Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".

Institution auditing mainly focuses its objectives to influence achievement of effective governance by being impartial in their reporting and in assessing with objectivity on whether funds are used prudently and promote accountability (Jamal, 2011). The internal auditor's responsibilities are to provide effective ground for achieving governance and reduce losses of funds.

Internal Auditors (IA) must be able to exercise their assignments in their own initiative in all departments, establishments, and functions of the organization. IA must be free to report its findings and appraisals and to disclose them internally. The head of IA should have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee (IIA, 2011). Benefits of being report to such bodies like the board audit committee (board of directors subcommittee) can have the following advantages. Firstly, it extends the scope of auditee without any fear. For example, executive management and country representative can be the part of audit. Secondly, the Audit Committee Board (ACB) can have direct access to finding of IA. Third, it increases the management or board attitude towards IA service which may have a positive effect on budget allocation. Fourth, the independence of IA is absolute. Finally but not the least, ACB can critically evaluate IA (KPMG, 2003).

The report addressee has also a significant impact on independence of IA (Chapman, 2001; Eisa, 2008). To whom the department makes the report functionally can an indicator of both its independence and its position in the organization (Abu-Azza, 2012). So as to that, the level to whom IAD reports has a significant impact on internal auditor's independence. Therefore, independence of IA has a significant impact on the effectiveness of IA.

2.4. Internal Auditor Competency and Performance

Internal Auditors have a continuing duty to maintain professional knowledge and skill at a level required to ensure that the management or employer receives competent professional service based on current developments in practice, legislation and techniques. Internal auditors should

act diligently and in accordance with applicable technical and professional standards when providing professional services. (IFAC code of Ethics, 2011).

Internal auditors need to enhance their knowledge and skills of Computerized Information System (CIS) for the purpose of planning, directing, supervising and reviewing the work performed (Abu-Musa, 2008). Information Technology (IT) is used to perform content tests and analytical investigations. So as to such a reason, internal auditors should increase the use of IT in IA (Wubishet & Dereje, 2014). IT helps IA by improving the quality through developing software packages, extensive electronically sheets and other programs like planning software (Salehi & Husini, 2011). In addition, it also used to complete the audit process in short period of time with accurate mathematical results given (Abu-Musa, 2008).

Lack of experience, expertise, knowledge and qualification on auditing practices hinders performance of internal auditors. Kariuki, (2010) suggested that internal auditors in a firm should be competent professionals. Lack of adequate understanding when coupled with low level of knowledge on auditing operations poses a major threat to the achievement of high performance. The audit function requires internal auditors to be competent with high professional qualification with required experience to effectively execute their mandate. To achieve good governance, internal auditors must have attained minimum education level and have good professional standing in auditing. The chief auditor is required to effectively select and recruit highly trained and skilled internal auditors (Kunkel, 2014). Knowledge, competency and qualification of the internal auditors' role depend on the level of staff competency attained and these impacts on the audit quality (Mihret & Yismaw, 2013).

Prior studies shows that competency play a critical role in the effectiveness of IA (Abu-Azza, 2012; Albercht, et al., 1988; Arena & Azzone, 2009; Baharud-din, et al., 2014; Belay, 2007; George, et al., 2015; Mihret & Yismaw, 2007; Mihret, et al., 2010; Ramachandran, et al., 2012; Wubishet & Dereje, 2014). If an organization has competent internal audit staff, then the following benefit will realized in the firm. Firstly, they have the ability to conduct effective audit in the organization. Secondly, it reduces the cost of audit which scarified to external auditors as

a result of external auditors make their investigation depends on internal audit reports (Goodwin-Stewart & Kent, 2006). Thirdly, internal auditors can provide information regarding on reports in an ideal position (Engle, 1999). Therefore, competence of IA team has a significant relationship with effectiveness of IA.

2.5. Empirical Evidence from previous researches on Internal Auditing

Various researches were conducted on the current practices of internal auditing in the Ethiopian context. The focus of those papers looks similar in terms of sectors. Almost all the researches focus on public service institutions. The following section highlights some of the previous research papers on the same/similar subject area that the researcher analyzed as part his assessment of previous empirical evidences.

Desalegn Getie Mihret and Aderajew Wondim Yismaw in their paper, “Internal audit effectiveness: an Ethiopian public sector case study”, aimed at identifying factors impacting the effectiveness of internal audit services stated that Internal audit effectiveness is arguably a result of the interplay among four factors: internal audit quality; management support; organizational setting; and attributes of the auditee. The study investigated the internal audit service of large public sector higher educational Institutions using a model developed from the above mentioned four factors. The end result of the research highlighted that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness.

Hamdu Kedir, Dr Arega Seyom and Addisu Gemeda in their article entitled “Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia” presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East

Arsi Zone of Ethiopia, taking competency, compliance, Independency, Risk management and quality assurance as major parameters of the IIA standard for comparison.

Abraham Gebregiorgis in his research “Internal Audit Function and Corporate Governance: in Commercial Banks” examined the role of Internal Audit Function (IAF) in corporate governance effectiveness in the case of 13 purposely sampled commercial banks by adopting concurrent mixed research approach. Quantitative methods were used through survey of internal auditors, and interviews and documentary sources taken under the qualitative methods. The main findings of this research paper were that the attributes of IAF (policy of banks for hiring and training, experience, and professional certification of internal auditors) and rates of implementation to audit recommendation by the management were low in which, the quality of IAF is low and has no positive impact on corporate governance effectiveness.

Bethlehem Fekadu conducted research on “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” for the purpose of investigating challenging factors that have influenced the Ethiopian higher governmental institutions’ internal audit practices. The study was done on four universities, Adama, Hawasa, Haramaya and Addis Ababa Universities. Seven internal auditors who were selected using convenience sampling techniques were used as data source and open-ended and closed ended questionnaires were used as data gathering tools.

Samuel Mulugeta conducted a research on “Internal Audit: Reporting Relationship in Ethiopian Public Enterprises” With objectives of analyzing the reporting line of internal audit and investigate its relationship with internal audit scope, independency, good governance and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope up with the problems identified in the research so as to promote the good image of internal audit profession. The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC (i.e. at Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and

board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprises internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified. (Mulugeta, 2008)

The analysis of previous studies showed that the focus of those research papers was on public service. These researches have made its attempt to address by focusing on Internal Audit functions of public owned institution. The results of the previous research papers on Internal Audit Activities of different sample institutions can be summarized as those institutions have quality problems and do not comply with the International Professional Practices Framework (IPPF) nor is there a mechanism in place to check and correct those non-compliances in a timely manner.

As it is indicated above, previous studies focused on public service organizations and as to the researcher knowledge no research has been conducted to assess the perception of internal auditors on factors contributes to the effective performance of Internal Audit Services of Charity Organizations operating in Ethiopia as result this study intend to fill the gap and enhance a similar study to be done in NGO sector.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research Design

The study employed a descriptive research method. As a result the main data collection means was questionnaire. The questionnaires have been structured in a formal study with clear and well stated investigative questions which sought to find out who, what, where, when and how much (Cooper & Schindler, 2010). Through descriptive research, the study sought to assess the perception of Internal Auditors how the working environment, internal auditor independence, and level of technical competency of internal auditors contributes to the effective performance of the internal audit function in Ethiopian Charities and Societies with a focus on selected foreign charities. A descriptive research determines and reports the way things are and attempts to describe such things as possible behavior, attitudes, values and characteristics, (Mugenda & Mugenda, 2008). Descriptive research design was used to establish the factors contribute to the effective performance of internal auditors' in NGO sector in Ethiopia.

3.2. Population and Sampling Design

3.2.1. Population

The target population for the study was all the internal audit members of staff in the internal audit department of 10 selected foreign charities headquartered in Addis Ababa and those have internal audit service within thier structure and have at least 5 and more than internal audit service member staff. This included the head of the unit and the member staff of internal audit at the head offices here in Addis Ababa. Thus, the target population of the study was 10 head of Internal Audit and 60 members of the internal audit staff. In each foreign charities the member of the internal audit unit is vary. A total of 70 respondents were targeted. The sample was considered adequate based on (Saunders et al., 2003) view that, a sample should at a minimum consist of 50 elements for statistical analysis.

3.2.2. Sample size and selection

The researcher has selected 10 foreign charities out of 433 as sample. The selection was done by taking the list of foreign charities and their telephone address from CCRDA which is an umbrella organization for NGOs in Ethiopia and calling them to identify the foreign charities those have internal audit service in its structure with 5 and above member staff. The researcher used to work in an international nongovernmental organization and has noticed that the INGOs in Ethiopia carry out their activities either involving directly by themselves or indirectly by providing fund to local NGOs. In this regard, in selecting samples from the capital city, Addis Ababa, is believed to represent their branches out of Addis Ababa and/or the local NGOs which receive Grant from the INGOs/ foreign charities, as the member of internal audit unit are supposed to assess the internal control system of the branches and local NGOs

3.2.2.1. Sampling Technique

The Head of Internal Audit unit and internal audit staff have been sampled for this study from the selected Foreign Charities. Random sampling technique was used to select individual members to be subjected to the study to ensure that every member of the population was accorded an equal chance of being included in the study thereby eliminating biasness.

Table 3.1: Sample Size Distribution

Strata	Population	Sample size (Rounded-up)
Head of Internal Audit	10	5
Internal audit staff	60	45
Total	70	50

3.3. Data Collection Method.

Primary data was collected using a semi-structured questionnaire developed by adopting some of the factors presented by Cohen and Sayag (2010), in their study examining the effectiveness of the IA Function in the discharge of its duties. The questionnaire was distributed to members

of staff in the internal audit department of the selected foreign charities. The administration of the questionnaires was by the “drop and pick” method that allowed respondents ample time to complete the questionnaires. The questionnaires contained five sections. Section A sought to establish the respondent demographic information, section B sought to establish the internal auditors working environment, section C sought to establish the auditors independent and authority, section D sought to establish the internal auditors technical competence and section E sought to establish the performance of internal auditors. The questionnaires were structured to answer the inquiry questions based on a 5 point Likert scale questions which were close ended to give the respondents limited and pre-determined responses to choose from. The questionnaires were made of simple and easy for the respondents to answer.

The questionnaires were distributed to the sample respondents by the researcher using a drop and pick later method as it is mentioned above to reduce disruptions on the respondents’ routines. Respondent anonymity was ensured by giving questionnaires unique numbers which only the researcher understands their meaning. A clear explanation through face to face discussion and telephone conversation was given to respondents as to how they are to benefit from the research all these were aimed at ensuring a high response rate.

3.4. Research Procedure

The questionnaires were pre-tested to ascertain the suitability of the tool before the actual administration. According to Cooper and Schindler (2010), the reason for conducting pilot testing is to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample. Pre-testing was done by administering the questionnaire to 10 respondents who will not be included in the actual study. This enabled the researcher to fine tune the questionnaire for objectivity and efficiency of the process and to better restructure questions to ensure clarity on each question. The questionnaire was designed to take an average of fifteen minutes to complete for the respondents. The final questionnaires will be administered using a drop and pick later method so as to minimize the level of interruptions in the target respondents’ schedules. The researcher has made follow up calls reminding the respondents to fill and return the questionnaires.

3.5. Data Analysis Methods

Before processing the responses, the completed questionnaires were edited for completeness and Consistency. The data was processed and grouped into categories. Descriptive analysis was used mainly to summarize the data collected. The data was edited for accuracy, uniformity, completeness and arranged for coding. SPSS 23 in combination with Microsoft excel program was employed in order to analyze the data collected using questionnaires. These programs enabled to generate descriptive statistics (such as percentages, mean, and standard deviation), tables and graphs. Therefore, the data collected using questionnaires was presented using statistical measures such as frequency tables, percentages, and graphical presentations as necessary.

CHAPTER FOUR

4. RESULTS AND FINDINGS

4.1. Introduction

This chapter presents the data analysis based on the data collected from the participants and findings in answering the research question (s). The core research question for this thesis is to establish the factors affecting the performance of internal auditors' in the NGO sector with a focus on selected Foreign Chareties. The data was gathered exclusively from questionnaires as the research instrument. The questionnaire was designed in line with the research questions of the study.

4.1.1. Response Rate

A total of 50 questionnaires were distributed out of which 39 questionnaires were returned giving a response rate of 77%. This response was considerable and representative of the population. This response was good enough and representative of the population and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is excellent.

4.2. Demographic Information

4.2.1. Gender of the Respondents

Gender Table 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	27	52.9	69.2	69.2
	Female	12	23.5	30.8	100.0
	Total	39	76.5	100.0	
Missing	System	12	23.5		
Total		51	100.0		

As it is indicated in the below table, the results show that 69.2% (27) were male while 30.8% (12) were female. From the findings it is evident that both males and females were involved in internal auditing in the Foreign Charities. Thus all genders were significantly represented in the study though the research is not gender sensitive.

4.2.2. Age group

Age table 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-34	15	29.4	38.5	38.5
	35-44	17	33.3	43.6	82.1
	45-54	6	11.8	15.4	97.4
	55 and above	1	2.0	2.6	100.0
	Total	39	76.5	100.0	
Missing	System	12	23.5		
Total		51	100.0		

The respondents were asked to indicate their age groups distribution and from the responses as it are indicated in the above table 2, majority 43.6% (17) of the respondents were in the age group between 35-44 years, 38.5% (15) were between 25-34 years, 15.4% (6) were between 45-54 years, 2.6% (1) were above 55 years.

This shows that the findings cut across all the age groups thus relevant and reliable information for the study was obtained.

4.2.3. Highest Qualification Achieved

what is your highest qualifications achieved Table 3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	1	2.0	2.6	2.6
	Degree	13	25.5	33.3	35.9
	Master	23	45.1	59.0	94.9
	Other, please specify	2	3.9	5.1	100.0
	Total	39	76.5	100.0	
Missing	System	12	23.5		
Total		51	100.0		

The respondents were asked to indicate their highest qualification achieved. From the findings in table 3, majority 59% (23) of the respondents had Master as the highest qualification, 33.3%

(13) had Degree, 5% (2) had certified public accountant certificate and 2.6% (1) had diploma. This shows that the respondents had relevant qualifications and were sought to have enough knowledge with the factors affecting the performance of internal auditors' hence provides relevant information for the study.

4.2.4. Number of Years in the Organization

How many years have you been in the organization? Table 4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	12	23.5	30.8	30.8
	6-10	14	27.5	35.9	66.7
	11-15	4	7.8	10.3	76.9
	16-20	8	15.7	20.5	97.4
	21 years and above	1	2.0	2.6	100.0
	Total	39	76.5	100.0	
Missing	System	12	23.5		
Total		51	100.0		

The respondents were requested to indicate the number of years they have been in the organization. The findings shows majority 35.9% (14) had been in the organization for between 6-10 years, 30.8% (12) for between 1-5 years, 20.5% (8) for between 16-20 years, 10.3% (4) for between 11-15 years and 2.6 % (1) for 21 years and above. This shows that the respondents had been in their organization long enough to understand the factors affecting the performance of internal auditors' in the NGO sector hence provided reliable information for the study.

4.3. Internal Auditor's Working Environment

20 questions on internal auditors working environment were developed and the respondents were requested to indicate the extent to which they agree or disagree. A five point Likert scale was provided ranging from: a scale of 1 to 5 where 1=Strongly Disagree, 2= Disagree, 3= Moderately Agree, 4= Agree and 5=Strongly Agree. From the responses, mean and standard

deviation were used for ease of interpretation and generalization of findings. The findings are clearly illustrated in the proceeding presentations.

4.3.1. Internal Auditor's Working Environment and performance

As shown on Table 5 (Annex I), Internal auditors are provided with formal audit training courses had a mean of 3.7949 with a standard deviation of .76707, Internal auditors are provided with training opportunities in employer specific operations in a bid to enhance their output had a mean of 3.5641 with a standard deviation of 1.16517, Internal Auditors are represented at meetings and conferences had a mean of 4.0256 with a standard deviation of .74294. There is a precise management policy on risk had a mean 3.9744 with a standard deviation of 1.06344. The internal auditors have the relevant skills, tools and knowledge to facilitate achieving set goals and manage risks effectively had a mean of 3.7692 with SD.74203.

As shown on Table 5, Top management through its support and policies demonstrate their enthusiasm to cultivating trust, integrity and competence within the organization had a mean of 3.6923 with a standard deviation of .89307, The job description, segregation of duties, authority, coordination and accountability are clearly defined had a mean of 3.7692 with a standard deviation of .80986, The organization's culture, code of conduct, human resource policies and performance reward systems support the business objectives, risk management and the internal control system had a mean of 3.6923 with a standard deviation of .79980, The organization shares upfront its set targets and what is expected of them and the scope of their freedom to act had a mean of 3.7436 with a standard deviation of .71517, the internal auditors have the relevant skills, tools and knowledge to facilitate achieving set goals and manage risks effectively had a mean of 3.7692 with a standard deviation of .96567 and Controls are flexible to manage changing environment, new risks and new operational gaps had a mean of 3.4103 with a standard deviation of .96567. The respondents strongly agree with the statements thus this finding concurs with those of Desalegn (2007) who carried out a study on factor impacting the effectiveness of internal audit service in Ethiopia Public Sector. He established that failure to realign skills to address new requirements, failure to

conduct risk assessments by management and failure to cope with diminished resources, affects the performance of internal auditors. He further found that the internal audit function entailed evaluation and improvement of control of risks, internal controls and governance processes. Furthermore, The respondents were moderately agree with the statements which are consistent with the findings of Hack (2013) who carried out a study on challenges facing internal auditors in 24 countries in Europe and found that challenges facing internal auditors were technical skills gaps, corruption and lack of authority and also identified other challenges that hinder the effective functioning of internal auditors which included high costs of maintaining the function, reluctance to travel, cultural and language differences, failure to adhering to quality standards and limited knowledge on acceptable accounting standards, regulations and local laws. Internal Auditor's recommendations are recognized and acted on had a mean 3.9231 with standard deviation of .70280.

The respondents agree with these statements which concurs with the findings of Mihret and Yismaw (2007) that failure by management to respond to internal audit findings and recommendations impacts negatively on their attitude towards the improvement of audit quality, their commitment to develop their career in the public sector internal audit functions and their overall job satisfaction.

4.4. Auditors Independence and Authority

The study sought to find out the extent to which the respondents agreed with the statement on indicators of internal audit independence and authority. A five point Likert scale was provided ranging from: a scale of 1 to 5 where 1=Strongly Disagree, 2=Partially Disagree, 3=Agree, 4=strongly agree, 5=totally Agree and from the responses mean and standard deviation was calculated.

4.4.1. Agency Theory and Auditor Independence

As shown on Table 6 (Annex I), Internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations objectively without fear of reprisal had the mean of 3.8718 with a standard deviation of .76707, the organization does

not permit internal auditors to audit operations which they have undertaken had a mean of 3.0513 with a standard deviation of 1.05003 and Legislation and the audit guidelines or charter defines clearly and formally the roles and authorities of an internal auditor had a mean of 3.6667 with a standard deviation of .80568. Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects); had a mean of 4.0256 with a standard deviation of .77755 and during recruitment for an internal audit staff the head of the internal audit is fully involved and actively participates had a mean of 4.2308 with a standard deviation of .84173. Protection of internal auditor independence and authority is adequate had a mean of 3.8974 with a standard .78790. The respondents strongly agree which is consistent with the findings of Kadondi (2012) that the auditing services offered by internal auditors are achieved through internal auditor's independence and where internal auditors lack independence, they would normally fail to perform to the expectation of the organization. As to the reward system and information generation, the respondents agree with the statements thus the findings concurs with those of Schneider (2014) who found that internal auditors role in achieving objectivity in the organization is largely affected by their economic status and that lack of clear reward systems. He further found that when rewards were not given to internal auditors, the internal audit operations could be influenced by management and this would affect their reports and may result in unreliable reports to the organization.

4.5. Internal Auditors Technical Competence

The study sought to find out the extent to which the respondents agreed with the statement on internal Auditor's technical competence. A five point Likert scale was provided ranging from: a scale of 1 to 5 where 1= significantly below expectation, 2=below expectation 3=Meets (on average) expectation, 4=above expectation and 5=Exceptionally above Expectation and from the responses mean and standard deviation was calculated as follows,

4.5.1. Agency Theory and Auditor Independence

As shown on Tale 7(Annex I), Internal auditors are aware of various principles of risk assessment and appraisal as well as risk management had mean of 3.4359 with a standard

deviation of .55226, there is adequate awareness of risk management strategy for the organization had a mean of 3.3590 with a standard deviation of .66835, there is a deep understanding of the organization's attitude towards identified risks had a mean of 3.5128 with a standard deviation of .82308, there is understanding of how higher-level objectives link with organization's operational objectives had a mean of 3.2821 with a standard deviation of .75911 and Internal auditors are proficient in analysis of business processes had a mean of 3.4615 with a standard deviation of .94162, Internal auditors are proficient in governance, risk, and control tools and techniques had a mean of 3.6667 with a standard deviation of .83771, Internal auditors are proficient in planning on risk-based Internal auditing had a mean of 3.6154 with a standard deviation of 84652, Internal auditors are proficient in data mining had a mean of 3.2821 with a standard deviation of .99865, Internal auditors are proficient in process modelling software had a mean of 2.9231 with a standard deviation of .87011, Internal auditors are proficient in internal audits frameworks and their link to the organizational overall objective had a mean of 3.3590 with a standard deviation of .77755, Internal auditors are proficient in the use of electronic working papers had a mean of 3.1026 with standard deviation of .94018. The statements were above expectation as indicated by the respondents and concurs with Paape (2011) who mentioned that lack of adequate knowledge and relevant experience causes inability and failure of internal auditors to understand their roles and responsibilities in the organization and Haron (2013) that absence of these qualities also affects the technical aspects of some of the internal auditors' roles, particular in case of internal control evaluation. Furthermore, the respondents indicated that the statements meets (on average) expectation thus this finding is accordance to DeZoort (2012) that the uniqueness of internal auditor's competency is fostered by ensuring internal auditor's independence, expertise, integrity and diligence to perform their roles effectively.

4.6. Performance of Internal Auditors

The study sought to establish out the extent to which the respondents agreed with the statement on internal Auditor's technical competence internal Auditor's performance in respect to the Key Performance Indicators. A five point Likert scale was provided ranging from

a scale of 1 to 5 where 1= significantly below expectation, 2=below expectation 3=Meets (on average) expectation, 4=above expectation and 5=Exceptionally above Expectation and from the responses mean and standard deviation was calculated. The findings are indicated on Table 8 as follows,

4.6.1. Agency Theory and Auditor Independence

As shown on Table 8 (Annex I), The internal audit function issues the number of reports as indicated in the audit plan had a mean of 3.4103 with a standard deviation of .81815, briefing on the significant findings to the management of significant findings and developments prior to the management meetings surveys had a mean of 3.5128 with a standard deviation of .91398, regular discussions between internal and external auditor across the year had a mean of 3.4872 with a standard deviation of 1.04810 and internal auditors processes to monitor the state of recommendations had a mean of 3.6410 with a standard deviation of .87320. The respondents were in agreement with these statements to above expectation which is in accordance to Eighme & Cashell (2010) that the internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders.

Number of 'best practice' recommendations made that is accepted/implemented by the organization had a mean of 3.4872 with a standard deviation of .79046, the standard of the internal audit reports compared with the best practices had a mean of 3.89 with a standard deviation of 0.772, plan maintained compared to capacity had a mean of 3.87 with a standard deviation of 1.062, budgeted hours compared to actual hours (variance) had a mean of 3.85 with a standard deviation of 0.861, timeliness in issuing audit reports had a mean of 3.83 with a standard deviation of 0.496, monitoring of the audit plan had a mean of 3.76 with a standard deviation of 0.934, number of key risks identified had a mean of 3.75 with a standard deviation of 0.744, Responsiveness to requests from the management had a mean of 3.73 with a standard deviation of 0.820, the coverage of the priority and high risk areas had a mean of 3.71 with a standard deviation of 0.995, frankness and condor with the mangement had a mean of 3.67 with a standard deviation of 0.955, issuance of reports compared with planned had a

mean of 3.57 with a standard deviation of 0.805, results of feedback received had a mean of 3.55 with a standard deviation of 0.892, percentage coverage of total audit universe had a mean of 3.50 with a standard deviation of 0.852, internal audit plan revisions had a mean of 3.25 with a standard deviation of 0.836, number of un captured hours (total & per team member) had a mean of 3.14 with a standard deviation of 0.923. The respondents indicated that the statements meets (on average) expectation thus concurs with Ljubisavljević and Jovanovi (2011) that the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The purpose of this chapter is to conclude the whole thesis and highlight future research directions. Accordingly, the first part presents the discussion; the second section is devoted for conclusion; Section three present the recommendations and highlights the research limitations and finally, future research directions is presented in section four.

5.2. Conclusion

5.2.1. Internal Auditor's Working Environment

The research founds that workplace environment plays a vital role in motivating employees to perform their assignment. The respondent agreed that variety in tasks, job autonomy, praise for a job well done, the chance to acquire new skills and the sense of accomplishment contribute to the performance of Internal Auditors. The respondents are in agreement with internal auditors are given opportunities to attend training and they also in line with the existence of equal employment opportunity and fairness in rewards and recognition method encourages creativity and innovation. Furthermore, the organizations share its set targets and what is expected of them and the scope of the internal auditors' freedom to act. In addition to this the respondents are in agreement with the statement that the internal auditors have the relevant skills, tools and knowledge to facilitate achieving set goals and manage risks effectively and controls are flexible to manage changing environment, new risks and new operational gaps. This indicate that the respondents strongly agree with the statements thus this finding concurs with those of Desalegn (2007) who carried out a study on factor impacting the effectiveness of internal audit service in Ethiopia Public Sector. He established that failure to realign skills to address new requirements, failure to conduct risk assessments by management and failure to cope with diminished resources, affects the performance of internal auditors. He further found that the internal audit function entailed evaluation and

improvement of control of risks, internal controls and governance processes. Furthermore, the respondents agree with these statements which concurs with the findings of Mihret and Yismaw (2007) that failure by management to respond to internal audit findings and recommendations impacts negatively on their attitude towards the improvement of audit quality, their commitment to develop their career in the public sector internal audit functions and their overall job satisfaction.

5.2.2. Auditors Independence and Authority

Findings from the study discussed that respondents agree that internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations objectively without fear of reprisal. In addition to this the protection of internal auditor independence and authority is adequate. The study found that Internal Auditors are adequately graded and remunerated according to their roles and responsibility. Furthermore, Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects) and during recruitment for an internal audit staff the head of the internal audit is fully involved and actively participates. As to the reward system, the respondents agree with the statements thus the findings concurs with those of Schneider (2014) who found that internal auditors role in achieving objectivity in the organization is largely affected by their economic status and that lack of clear reward systems. He further found that when rewards were not given to internal auditors, the internal audit operations could be influenced by management and this would affect their reports and may result in unreliable reports to the organization.

The findings further showed that Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records. The findings also showed that the internal audit operations are positioned strategically in a bid obtain cooperation from both management and staff within the organization and Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records. These findings are consistent with those of Warga (2014) who argues that lack of controls also results in

financial reporting errors, late filings, fraud and numerous other questionable transactions being performed. As the number and size of NGO organizations grow so does the need for properly educated and experienced accounting related personnel. As a result management influences decisions of internal auditors affecting their performance and these results in financial reporting risks such as improper revenue recognition, inflated acquisition costs for equipment and inventory, improper cash advances to officers and other transgressions that have a significant impact on organizational viability.

5.2.3. Internal Auditors Technical Competence

The study showed that the respondents strongly agreed that there is understanding of performance measurement principles against output targets and these are designed to deliver objectives and there is knowledge on financial analysis tools and techniques. Internal auditors are proficient in the use of IT/ICT and tech-based audit techniques and they are proficient in forensic skills/fraud awareness.

The study further discovered that internal auditors are proficient in project management and had a good understanding of organization management and operation research skills. These findings are consistent with Beardwell & Holden (2001) who argues competences are the knowledge and skills that employees require to perform a job satisfactorily. The internal audit function personnel both at the management level and at actual internal auditors should be qualified, competent and knowledgeable to enable them perform their duties effectively. According to Institute of Internal Auditors (IIA) (2009) internal auditing is being performed by professionals with a thorough understanding of the business culture, systems and processes. The findings from the study indicate that internal audit staff in the selected organization understood how higher-level objectives link with organization's operational objectives and understood the organisation's attitude towards identified risks. Kariuki, (2010) posited that internal auditors in a firm should be competent professionals. Lack of adequate understanding when coupled with low level of knowledge on auditing operations poses a major threat to the achievement of high performance. The findings further showed that there was clarity on the organization's key related risks and how these impacted on the high-level objectives,

governance, and risk and control tools. Lin (2010) argues that since the internal audit function's main task is to oversee that the organization's financial reporting and auditing process are sufficient, they need to have the expertise to understand the issues to be investigated or discussed.

The study also found out that the internal auditors are proficient in problem-solving techniques and use of tools. They are proficient in both management and operation research skills. Internal auditors are proficient in data collection and analysis tools and techniques and in analysis of business processes. Internal auditors are proficient in techniques on Computer-assisted internal audit. The respondents had an average expectation that the management (head of internal audit and senior internal auditors) and internal audit staff had competencies on the techniques on control assessment and risk analysis; internal auditing frameworks and the links to balanced scorecards. Morgan (2009) posited that internal auditors needed to be experienced and have the expertise. The uniqueness of internal auditor's competency is fostered by ensuring internal auditor's independence, expertise, integrity and diligence to perform their role effectively. The ability to relate the organizations risk appetite to the application of controls in operational areas; skills in data mining, analysis of business processes, planning on risk-based Internal auditing; techniques on computer-assisted internal audits; and the use of IT/ICT and tech-based audit techniques and Controls identification. This finding concurs with those of Morgan (2009) who posited that internal auditors needed to be experienced and have the expertise and that the uniqueness of internal auditor's competency is fostered by ensuring internal auditor's independence, expertise, integrity and diligence to perform their role effectively.

5.3. Recommendations

5.3.1. Recommendations for improvement

5.3.1.1. Internal Auditor's Working Environment

- The internal auditors must be provided with formal audit training courses and accorded with on- job skills that suit their work in the internal audit unit.
- The organizations must share its set targets and what is expected of them and the scope of the internal auditors' freedom to act.
- The management must respond to internal audit findings and recommendations as failure to respond impacts negatively on their attitude towards the improvement of audit quality, their commitment to develop their career in internal audit functions and their overall job satisfaction.

5.3.1.2. Auditors Independence and Authority

- The organization should not permit internal auditors to audit operations which they have undertaken.
- The Legislation and the audit guidelines or charter must define clearly and formally the roles and authorities of an internal auditor.
- Internal auditors should be segregated from functional and management decisions.
- In addition to this, the protection of internal auditor independence and authority must be adequate and as structure the internal audit function or service should report to top management who are in charge with governance.

5.3.1.3. Internal Auditors Technical Competence

- Internal auditors should be proficient in analysis of business processes and in planning on risk-based internal auditing and in data mining.
- The internal auditors should also be proficient in process modelling software and in internal audits frameworks and their link to the organizational overall objective.
- The internal auditors' technical competence must be based on organization management and operation research skills.
- Internal auditors should also be familiarized with the developments in the internal

audit frameworks regularly pronounced by the Institute of Internal Auditors, professional bodies like the Accounting and Auditing Board of Ethiopia (AABE) and those promulgated by agencies like the USAID, DIFD and EU that support the enhancement of governance in the NGO sector.

5.3.2. Recommendations for Further Studies

This study focused on the selected foreign charities and therefore, generalizations cannot adequately extend to other foreign charities and local NGOs in Ethiopia. Future research should therefore focus on all foreign charities and on the new levels of NGOs such as the Ethiopian Societies, Consortium and local NGOs such as the Ethiopian Charities Societies. Such studies when combined with the findings of this study will enable a clearer picture of the internal audit in NGO sector and will help in enhancing the internal audit function in the NGO sector in Ethiopia and thus positively affecting their performance. In addition to this, the study also recommends that a similar study should be done in other sector institution for comparison purposes and to allow for generalization of findings on the factors contributes to the effective performance of internal auditors' in Ethiopia.

5.4. Limitation of the Study

Even though there are more than four hundred foreign charities in Ethiopia, this study assessed only the perception of Internal Auditors who are employed in 10 selected foreign charities and foreign charities/ INGOs which have head offices in the capital city, Addis Ababa, were only considered. Therefore, it lacks covering all charities/NGOs in Ethiopia. Furthermore, some respondents were biased while giving information due to reason such as privacy and busy schedules at their place of work so it may involve subjective judgments of individuals. Despite the above probable limitations, the researcher made his maximum effort to design the research as properly as possible and to achieve the specified objectives.

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APPENDIX I: Statistical Tables

1.1. Internal Auditor's Working Environment and performance

Descriptive Statistics Table 5

	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors are provided with formal audit training courses	39	2.00	5.00	3.7949	.76707
Internal auditors are given opportunities to attend attending audit	39	1.00	5.00	3.6410	.74294
Internal auditors are provided with training opportunities in employer specific operations in a bid to enhance their output	39	1.00	5.00	3.5641	1.16517
Internal auditors are accorded with on-job skills that suits their work in the internal audit unit	39	1.00	5.00	3.5897	.88013
The organization has future training plans for each internal audit staff	39	1.00	5.00	3.6923	.92206
Internal Auditor's recommendations are recognized and acted on	39	3.00	5.00	3.9231	.70280
Internal Auditors are represented at meetings and conferences	39	2.00	5.00	4.0256	.74294
The internal auditors are recognized at annual staff conference and given diplomas, awards, etc.	39	1.00	5.00	3.6154	1.06661
The internal auditors are praised and their role recognized in any publications.	39	1.00	4.00	3.1538	.90433
There are travel opportunities to conferences, audit work, trainings,	39	2.00	5.00	3.8718	.65612

Descriptive Statistics Table 5

	N	Minimum	Maximum	Mean	Std. Deviation
There is professional training support	39	1.00	5.00	3.7692	.90209
There are exchange programs participation (e.g. with Head Office auditors)	39	1.00	5.00	3.3590	.84253
The management has well laid out plans for managing major risks identified by internal auditors.	39	3.00	5.00	3.8974	.71800
There is a precise management policy on risk	39	2.00	5.00	3.9744	1.06344
The organization's culture, code of conduct, human resource policies and performance reward systems support the business objectives, risk management and the internal control system	39	2.00	5.00	3.6923	.79980
Top management through its support and policies demonstrate their enthusiasm to cultivating trust, integrity and competence within the organization.	39	1.00	5.00	3.6923	.89307
The job description, segregation of duties, authority, coordination and accountability are clearly defined.	39	2.00	5.00	3.7692	.80986
The organization shares upfront its set targets and what is expected of them and the scope of their freedom to act	39	2.00	5.00	3.7436	.71517

Descriptive Statistics Table 5

	N	Minimum	Maximum	Mean	Std. Deviation
The internal auditors have the relevant skills, tools and knowledge to facilitate achieving set goals and manage risks effectively	39	3.00	5.00	3.7692	.74203
Controls are flexible to manage changing environment, new risks and new operational gaps	39	1.00	5.00	3.4103	.96567
Valid N (listwise)					

1.2. Agency Theory and Auditor Independence

Descriptive Statistics Table 6

	N	Minimum	Maximum	Mean	Std. Deviation
Management policy establishes internal audit unit	39	3.00	5.00	4.1026	.78790
The protection of internal auditor independence and authority is adequate	39	2.00	5.00	3.8974	.78790
Internal auditor reports to top management and to those charged with governance (e.g. Global Auditors)	39	3.00	5.00	3.8974	.91176
Internal auditors are sufficiently immune from any internal pressure to undertake audits and are report findings and recommendations objectively without fear of reprisal	39	2.00	5.00	3.8718	.76707
The organization does not permit internal auditors to audit operations which they have undertaken	39	1.00	5.00	3.0513	1.05003

Descriptive Statistics Table 6

	N	Minimum	Maximum	Mean	Std. Deviation
Legislation and the audit guidelines or charter defines clearly and formally the roles and authorities of an internal auditor	39	2.00	5.00	3.6667	.80568
Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects);	39	3.00	5.00	4.0256	.77755
Head of Internal Audit has adequate powers in establishing internal audit plans	39	2.00	5.00	3.6154	1.13822
Internal auditors are adequately graded and remunerated according to their roles and responsibilities	39	1.00	4.00	3.3077	.86310
During recruitment of internal audit staff, the Head of Internal Audit is fully involved in the process	39	2.00	5.00	4.2308	.84173
The Head of Internal Audit has unlimited and direct access to those charged with governance	39	2.00	5.00	3.7436	.93803
The Head of Internal Audit seeks for support and administrative interface with those charged with governance for	39	2.00	5.00	3.6923	.92206
The internal audit operations are positioned strategically in a bid obtain cooperation from both management and staff within the organization	39	3.00	5.00	3.8462	.58663

Descriptive Statistics Table 6

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records	39	2.00	5.00	3.8462	.93298
Valid N (listwise)	39				

1.3. Internal Auditors Technical Competence

Descriptive Statistics Table 7

	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors are aware of various principles of risk assessment and appraisal as well as risk management	39	2.00	4.00	3.4359	.55226
There is adequate awareness of risk management strategy for the organization.	39	2.00	4.00	3.3590	.66835
There is a deep understanding of the organization's attitude towards identified risks	39	2.00	5.00	3.5128	.82308
There is awareness of organization's key related risks and how they impact their high-level objectives	39	2.00	5.00	3.7179	.82554
There is understanding of how higher-level objectives link with organization's operational objectives	39	1.00	5.00	3.2821	.75911
Internal auditors possess the ability to relate the organizations risk appetite to the application of controls in operational areas	38	2.00	5.00	3.5263	.64669
There is understanding of performance measurement principles against output targets and these are designed to deliver objectives	39	1.00	5.00	3.3333	.89834
There is knowledge on financial analysis tools and techniques	39	2.00	5.00	3.5641	.59802

Descriptive Statistics Table 7

	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors are proficient in the use of IT/ICT and tech-based audit techniques	39	1.00	5.00	2.8718	.95089
Internal auditors are proficient in forensic skills/fraud awareness	39	1.00	4.00	3.1026	.91176
Internal auditors are proficient in project management	39	1.00	4.00	3.1282	.73196
Internal auditors are proficient in problem-solving techniques and use of tools	39	2.00	4.00	3.5641	.64051
Internal auditors are proficient in both management and operation research skills	39	1.00	5.00	3.2308	.84173
Internal auditors are proficient in data collection and analysis tools and techniques	39	2.00	5.00	3.6667	.77233
Internal auditors are proficient in analysis of business processes	39	1.00	5.00	3.4615	.94162
Internal auditors are proficient in governance, risk, and control tools and techniques	39	1.00	5.00	3.6667	.83771
Internal auditors are proficient in controls identification	39	2.00	23.00	3.9487	3.22775
Internal	39	2.00	5.00	3.7179	.68628
Internal auditors are proficient in understanding business of the organization.	39	2.00	5.00	3.5897	.59462
Internal auditors are proficient in process modelling software	39	1.00	4.00	2.9231	.87011
Internal auditors are proficient in internal audits frameworks and their link to the organizational overall objective.	39	1.00	5.00	3.3590	.77755
Internal auditors are proficient in planning on risk-based Internal auditing.	39	1.00	5.00	3.6154	.84652
Internal auditors are proficient in data mining	39	2.00	5.00	3.2821	.99865

Descriptive Statistics Table 7

	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors are proficient in continuous/real-time auditing	39	2.00	5.00	3.3077	.79980
Internal auditors are proficient in the use of electronic working papers	39	2.00	5.00	3.1026	.94018
Internal auditors are proficient in techniques on Computer-assisted internal audit	39	2.00	5.00	3.0769	.62343
Valid N (listwise)	38				

1.4. Performance of Internal Auditors

Descriptive Statistics 8

	N	Minimum	Maximum	Mean	Std. Deviation
The internal audit function issues the number of reports as indicated in the audit plan	39	1.00	5.00	3.4103	.81815
The Head of Internal Audit leads all internal audit plan revisions	39	1.00	5.00	3.8974	.82062
The actual time spent on specific activities compares to the budget	39	2.00	5.00	3.6410	.90284
The plan is implemented throughout the year	39	2.00	5.00	3.5897	.88013
There is a high number of key risks identified	39	2.00	5.00	3.3077	.76619
There is a high number of 'best practice' recommendations made that are accepted/implemented by the organization	39	1.00	4.00	3.4872	.79046
There is high efficiency based on number of hours spent and coverage in internal audit activities	39	2.00	5.00	3.3333	.73747
The internal audit covers a high percentage in the coverage (More than 70%) of the total population	39	2.00	4.00	3.2308	.70567
There is a high rate (more than 90%) of feedback against the requests issued	39	1.00	5.00	3.1795	.82308
The function received results of management feedback which are considered in the plans.	39	2.00	4.00	3.5385	.68234
There is timeliness in the undertaking of satisfaction surveys	39	1.00	5.00	3.6923	.86310

Descriptive Statistics 8

	N	Minimum	Maximum	Mean	Std. Deviation
The internal audit staff responds to requests from Global audit or Head Quarter Internal Audit Unit.	39	1.00	5.00	3.5128	.82308
There is frankness and condor during interactions with the management of the organization.	39	2.00	5.00	3.4872	.72081
There is constant briefing on the significant findings to the management.	39	1.00	5.00	3.5128	.91398
Internal auditors have processes that monitor the status of recommendations	39	1.00	5.00	3.6410	.87320
There are regular discussions between the internal auditors across the year.	39	1.00	5.00	3.4872	1.04810
There is constant monitoring of the audit plan.	39	2.00	5.00	3.7436	.71517
There is timeliness in issuing audit reports	39	2.00	5.00	3.5897	.81815
The standard of the internal audit reports can be compared with the best practices	39	2.00	5.00	3.3590	.81069
The internal audits cover areas of the priority and high risk	39	2.00	5.00	3.9744	.98641
Valid N (listwise)	39				

APPENDIX II: INTRODUCTORY LETTER

Solomon G.Medhin

Addis Ababa University

Faculty of Business and Economics

Tel 251911657078 and email solgm2007@gmail.com

Addis Ababa

Dear Respondent:

RE: RESEARCH STUDY

I am a graduate student at the Addis Ababa University pursuing a Masters degree in Finance and Accounting. As part of the program, I am currently undertaking a research study on **“Factors Determining Effectiveness of Internal Audit in Ethiopian Civil Societies in the case of selected Foreign Charities (International Non-Government Organization)”**, with the aim of identifying the reasons what aspects affect performance of internal audit function in contributing to effective financial management in the NGO sector.

Your participation in this study is essential and will be highly appreciated. Kindly spare your time to fill in the attached questionnaire which will take you approximately 15 minutes to answer.

I assure you that the information provided will be treated with the utmost confidentiality and will only be used for academic purposes.

Thank you for your time and kindest regards.

Yours faithfully,

Solomon Gebremedhin

APPENDIX III: QUESTIONNAIRE

PART A: DEMOGRAPHIC INFORMATION

1. Gender: Male () Female ()

2. Age group:

25 – 34 years () 35 – 44 years () 45 – 54 years () 55 years and above ()

3. What is your highest qualification achieved?

Certificate () Diploma () Degree () Masters () others (please specify)

4. How many years have you been in the organization?

1– 5 years () 6 – 10 years () 11 – 15 years () 16 – 20 years ()

21 years and above ()

PART B: INTERNAL AUDITOR’S WORKING ENVIRONMENT

Rate the extent to which you agree or disagree that the following statements best describe your organization. Use 5 scale rating whereby: 1=Strongly Disagree, 2. Disagree 3. Moderately Agree

4. Agree 5. Strongly Agree

Statement	1	2	3	4	5
1. Internal auditors are provided with formal audit training courses					
2. Internal auditors are given opportunities to attend attending audit					
3. Internal auditors are provided with training opportunities in employer specific operations in a bid to enhance their output					
4. Internal auditors are accorded with on-job skills that suits their work in the internal audit unit					
5. The organization has future training plans for each internal audit staff					
6. Internal Auditor’s recommendations are recognized and acted on					
7. Internal Auditors are represented at meetings and conferences					
8. The internal auditors are recognized at annual staff conference and given diplomas, awards, etc.					
9. The internal auditors are praised and their role recognized in any publications.					
10. There are travel opportunities to conferences, audit work, trainings,					

Statement	1	2	3	4	5
11. There is professional training support					
12. There are exchange programs participation (e.g. with Head Office auditors)					
13. The management has well laid out plans for managing major risks identified by internal auditors.					
14. There is a precise management policy on risk					
15. The organization's culture, code of conduct, human resource policies and performance reward systems support the business objectives, risk management and the internal control system					
16. Top management through its support and policies demonstrate their enthusiasm to cultivating trust, integrity and competence within the organization.					
17. The job description, segregation of duties, authority, coordination and accountability are clearly defined.					
18. The organization shares upfront its set targets and what is expected of them and the scope of their freedom to act					
19. The internal auditors have the relevant skills, tools and knowledge to facilitate achieving set goals and manage risks effectively					
20. Controls are flexible to manage changing environment, new risks and new operational gaps					

PART C: AUDITORS INDEPENDENCE AND AUTHORITY

Rate the extent to which you agree or disagree that the following statements best describe the level of independence of internal auditors in your organization. Use 5 scale rating whereby: **1=Strongly Disagree 2. Partially Disagree 3. Agree 4. Strongly agree 5. Totally Agree**

Indicator of Internal Audit Independence and Authority	1	2	3	4	5
1 Management policy establishes internal audit unit					
2 The protection of internal auditor independence and authority is					
3 Internal auditor reports to top management and to those charged with governance (e.g. Global Auditors)					
5 Internal auditors are sufficiently immune from any internal pressure to undertake audits and are report findings and recommendations objectively without fear of reprisal					
6 The organization does not permit internal auditors to audit operations which they have undertaken					

Indicator of Internal Audit Independence and Authority		1	2	3	4	5
7	Legislation and the audit guidelines or charter defines clearly and formally the roles and authorities of an internal auditor					
8	Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects);					
9	Head of Internal Audit has adequate powers in establishing internal audit plans					
10	Internal auditors are adequately graded and remunerated according to their roles and responsibilities					
11	During recruitment of internal audit staff, the Head of Internal Audit is fully involved in the process					
12	The Head of Internal Audit has unlimited and direct access to those charged with governance					
13	The Head of Internal Audit seeks for support and administrative interface with those charged with governance for guidance, accountability and reinforcement.					
14	The internal audit operations are positioned strategically in a bid obtain cooperation from both management and staff within the organization					
15	Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records					

PART D: INTERNAL AUDITORS TECHNICAL COMPETENCE

Rate the internal Auditor’s knowledge in Risk, Control and Governance in reference to the following indicators Use five point scale where;

1. Significantly below expectation 2. Below expectation 3. Meets (on average) expectation,
4. Above expectation 5. Exceptionally above Expectation

INTERNAL AUDITORS TECHNICAL COMPETENCE		1	2	3	4	5
1.	Internal auditors are aware of various principles of risk assessment and appraisal as well as risk management					
2.	There is adequate awareness of risk management strategy for the organization.					
3.	There is a deep understanding of the organization’s attitude towards identified risks					
4.	There is awareness of organization’s key related risks and how they impact their high-level objectives					

INTERNAL AUDITORS TECHNICAL COMPETENCE		1	2	3	4	5
5.	There is understanding of how higher-level objectives link with organization's operational objectives					
6.	Internal auditors possess the ability to relate the organizations risk appetite to the application of controls in operational areas					
7.	There is understanding of performance measurement principles against output targets and these are designed to deliver					
8.	There is knowledge on financial analysis tools and techniques					
9.	Internal auditors are proficient in the use of IT/ICT and tech-based audit techniques					
10.	Internal auditors are proficient in forensic skills/fraud awareness					
11.	Internal auditors are proficient in project management					
12.	Internal auditors are proficient in problem-solving techniques and use of tools					
13.	Internal auditors are proficient in both management and operation research skills					
14.	Internal auditors are proficient in data collection and analysis tools and techniques					
15.	Internal auditors are proficient in analysis of business processes					
16.	Internal auditors are proficient in governance, risk, and control tools and techniques					
17.	Internal auditors are proficient in controls identification					
18.	Internal auditors are proficient in techniques on control assessment and risk analysis					
19.	Internal auditors are proficient in understanding business of the organization.					
20.	Internal auditors are proficient in process modelling software					
21.	Internal auditors are proficient in internal audits frameworks and their link to the organizational overall objective.					
22.	Internal auditors are proficient in planning on risk-based Internal auditing.					
23.	Internal auditors are proficient in data mining					
24.	Internal auditors are proficient in continuous/real-time auditing					
25.	Internal auditors are proficient in the use of electronic working papers					
26.	Internal auditors are proficient in techniques on Computer-assisted internal audit					

PART E: PERFORMANCE OF INTERNAL AUDITORS

Rate the internal Auditor’s performance in respect to the following Key Performance Indicators
 Use five point scale where; **1.** Significantly below expectation **2.** Below expectation **3.** Meets
 (on average) expectation **4.** Above expectation **5.** Exceptionally above expectation

KEY PERFORMANCE INDICATORS		1	2	3	4	5
1.	The internal audit function issues the number of reports as indicated in the audit plan					
2.	The Head of Internal Audit leads all internal audit plan revisions					
3.	The actual time spent on specific activities compares to the budget					
4.	The plan is implemented throughout the year					
5.	There is a high number of key risks identified					
6.	There is a high number of ‘best practice’ recommendations made that are accepted/implemented by the organization					
7.	There is high efficiency based on number of hours spent and coverage in internal audit activities					
8.	The internal audit covers a high percentage in the coverage (More than 70%) of the total population					
9.	There is a high rate (more than 90%) of feedback against the requests issued					
10.	The function received results of management feedback which are considered in the plans.					
11.	There is timeliness in the undertaking of satisfaction surveys					
12.	The internal audit staffs responds to requests from Global audit or Head Quarter Internal Audit Unit.					
13.	There is frankness and condor during interactions with the management of the organization.					
14.	There is constant briefing on the significant findings to the management.					
15.	Internal auditors have processes that monitor the status of recommendations					
16.	There are regular discussions between the internal auditors across the year.					
17.	There is constant monitoring of the audit plan.					
18.	There is timeliness in issuing audit reports					
19.	The standard of the internal audit reports can be compared with the best practices					
20.	The internal audits cover areas of the priority and high risk					

Thank for your cooperation

APPENDIX IV Timeframe of the activities

Calendar Week	Activities.
<i>2nd to 4th week of April 2017</i>	<i>Design a chapter structure for the research project including a table of contents. A draft of the abstract, keywords, preface and introduction of the study.</i>
<i>1st to 3rd week of May 2017</i>	<i>Review the introduction, design questioners and plan how to carry out sampling on the selected Foreign Charities</i>
<i>4th to 2nd week of June 2017</i>	<i>Strategies on how to fill the gaps in the Literature review by gathering more literature on microfinance. Submit my proposal to advisor for review.</i>
<i>3rd to 4th week of June 2017</i>	<i>Incorporate the feedback received and send out the questioners and follow up for answer and tabular the results</i>
<i>1st July to 30 August 2017</i>	<i>Carry out personal interviews; analyze the result of the questioner and interviews.</i>
<i>1st to 30 Sep 2017</i>	<i>Perform analysis on secondary and primary data already gathered</i>
<i>1st to 31 October 2017</i>	<i>Write up a draft of the dissertation excluding the conclusion chapter. Submit the draft to advisor for review</i>
<i>1st to 4th week of November</i>	<i>Incorporate the feedback received and Begin drafting out the conclusion of the findings.</i>
<i>1st to 2nd week of December 2017</i>	<i>Complete the final version of the main chapter including the conclusion chapter</i>
<i>20 December 2017</i>	<i>Submit the final draft to advisor for review</i>
<i>3rd to 4th week of December 2017</i>	<i>Incorporate the feedback received and Include the bibliography and ensure that Harvard referring system is used.</i>
<i>5 January 2018</i>	<i>Complete the entire dissertation report, allowing for any lapses in the schedule of activities and submit to department</i>