THE EFFECT OF INTERNAL AUDIT ON THE FINANCIAL PERFORMANCEOF BUREAU OFFINANCE & ECONOMIC DEVELOPMENT OF THE OROMIA REGIONAL STATE

BY

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IDE NO GSR/1691/09

DECLARATION

I, am the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor Dr. P.Laxmilkatham. All sources of material used for the thesis have been properly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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LIST OF ABBREVIATIONS

AICPA =American institute of certified public accountants.

ASE = Accounting society in Ethiopia.

CAE=Chief audit executives.

CIA =Certified internal audit.

COSO=Committee of sponsoring organizations of the tread way commission.

EIFPO = Effect of internal on financial performance Organization.

EAFA= Ethiopian accounting finance association.

EPAAA=Ethiopian professional association of accountants and auditors.

GAAS =Generally accepted auditing standards.

IAS = Internal audit standards.

IBEX= Integrated budget and expenditure exchange system.

IC = Internal controls.

ICT=Information communication technology.

IIA = Independence of internal audit.

IIA= Institute of internal auditors.

IIARF =The institute of internal auditors research foundation.

INTOSAI= The international organization of supreme audit institutions.

ISSAI=The international standards of supreme audit institutions.

MoFED= Ministry of Finance and Economic Development

PC = Professional competency.

PPESA=Privatization and public enterprises supervisory agency.

OFAG= Office of the federal auditor general.

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Abstract

Financial performance requires appropriate internal audit practices to improve efficiency. For the purpose of this study the researcher sought to determine the effect of internal audit on financial performance in Bureau of Finance & Economics Development in Oromia Region state. Internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls, and support of management and independence of internal audit. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis technique. Descriptive statistics such as mean, standard deviation and frequency distribution were used in the analysis of data. Data presentation was done by use of tables for ease of understanding and interpretation. From the findings, the study concludes that, independence of internal audit, professional competency and internal control had a positive relationship and also internal audit standards and support of management had a negative relationship with financial performance of organization.The studied found that a unit increase in independence of internal audit, professional competency ,internal audit standards ,support of management ,andinternal control would lead to increase a in financial performance of organization and further unit increase in internal control would lead to increase in financial performance of organization.From the literature review, several researchers seem to be together that there was a relationship between internal audit and financial performance of an organization. These conclusions would confirm after empirical evidence would obtain from the research and not identify prefer studied how support of management and Understanding more effective, concerns on audit software‘s Such as IBEX, automation, fraud detection**,** audit exporting, data mining and network security internal audit unit needs much more emphasis. This providing gabs to study as explain above.The study recommends that management in organization should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency, management support and internal controls to extend financial performance of the Bureau of Finance & Economics Development.

Key words**:** Financial performance, internal audit standards, professional competency, internal controls, support of management and independence of internal audit.

CHAPTER ONE

INTRODUCTION

This chapter gives an overview of the research work. It gives brief background on internal audit system and practices in general and limits it to Bureau of Finance & Economics Development in Oromia Region state government. Areas that can be seen in this chapter includes background to the Study, Statement of the problem, research question , research objective, value of the study, scope of the study, limitations of the Study, Organization of the Study and definition of key terms.

1.1 Background to the Study

The internal audit department was very important inside Organization that the internal audit is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the system accounting as it is the section that records all activities related to the sector. The efficiency of internal audit helps develop the work of the organization because the financial reports reflect the internal audit department's quality(Asare T, 2009).

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the institute of internal auditors (IIA) international Standards for the Professional Practice of internal auditing is essential in meeting the responsibilities of internal auditors and the internal audit activity(Coupland, et al. 1993).

The international standards of supreme audit institutions(ISSAIs) which are issued by the international organization of supreme audit institutions (INTOSAI) present general terms to allow adoption in different national contexts with Audit committee's an understanding that implementation will be governed by the organization and determine effect of internal audit on financial performance in Bureau of Finance & Economics Development the internal audit activity carries out their responsibilities and in accordance with the applicable laws in Oromia Region state(Pérez-Cornejoet al, 2019).

The financial and organization strategy of a Bureau was underpinned by effective internal systems in which the internal audit has an important role in raising the reliability of the internal control system, improving the process of risk management and above all, satisfying the needs of internal users. The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Pérez-Cornejoet al, 2019).

Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders were interested in budget effeteness, sustainable growth of economy, strong leadership, and reliable reporting on the financial performance and practices of an organization (Zhenge et al, 2019).

1.2 Statement of the problem

As difined(Howieson ,2019). The Statement of the problem of organizationwere as follows

1. Internal auditing skills have become crucial in untangling the complicated accounting man oeuvres that have confused financial statementscamefromlack of training the latest ICT (Information and communications technology) audit software‘s Such as automation, fraud detection, audit exporting, data mining and network security.
2. The mandate of the internal audit is to provide support to Provincial departments by assessing the adequacy of controls in place to mitigate potential threats which might occur and prevent the government from obtaining the set objectives.
3. The Organization accounting dishonors and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes.

1.3 Research question

The main research question was to investigate the effect of internal audit on performance of Bureau of Finance and Economics Development in Oromia Region state.

1.3.1. To achieve this, the following sub-questions were developed for the research:

1. What is the nature and scope of the internal audit?
2. What area does management support the internal audit?
3. What are factors affecting the effect of internal audit on Financial Performance?
4. How effectively are internal audit integrated into the day-to day Operation of the Organization?
5. Does internal audit influence the financial performance of Organization?
6. What are the components of an internal audit of Organization?

1.4 The research objective

As difined((Pulkkinen,2019) the general objective of the study was to investigate the effect of internal audit on financial performanceof Bureau of Finance and Economic Development of the Oromia Region state.

1.4.1. The specific objectives of the study were the following:

a. To establish if there is a relationship between internal audit and financial performance.
b. Ascertain the internal audit that exist within the organization.
c. Determine how effectively these internal audit processes are
d. Integrated into the day-to day operations of organization.
e. Determine whether internal audit influence the Financial performance Of organization.
f.

1.5. Significance of the study

This study will help in increasing the role and image of internal audit in Organization to make it more effective and professional. It will help the government appreciate the role of the internal audit as one of the most important managerial control systems in an organization required to safeguard public interests. The management of Organization will be able to look for ways of making Internal Audit a completely independent function from the management thus making it more effective. By implementing recommendations given on the internal audit reports management will be able to enhance performance of the financial performance of Organization.

1.6. Scope of the study

The study is conducted at Bureau of Finance & Economics Development and it was intend to explore the factors for the effect of internal audit on Financial Performance in the Ormia Region State. The resources like human, time, money available was used and ignoring other information otherwise irrelevant with respect to the requirements of the topic. This would enable the researcher to make a thorough analysis and draw good conclusion.

The scope of internal auditing within an organization was broad and may involve topics such as an organization's governance, risk management and management controls over effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss due to lack of an insufficient train on audit software's Such as IBEX, automation, fraud detection, audit exporting, data mining and network security internal audit unit needs much more emphasis.

Assurance services objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes. Consulting services advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations, Value adding services focusing on efficiency and effectiveness to improve processes and the economical use of finances and resource.

1.7. Limitation of the study

A major limitation of the study is resource constraints and time and the study is also limited only to the pieces of information that the respondents were willing to disclose the information.Thus, that understandable that this may have its own limitations on the findings of the study.

1.8. Organization of the study

The study has five chapters. Chapter one presents the introduction of the study. This chapter presents detailed discussion on the background of the study, statement of the problem, the research question objectives of the study, value of study, scope of the study, limitation of study and definition of key terms. Chapter two presents literature review where the theoretical background of the study is presented. Clear discussions to the concept of nature and scope of internal audit, responsible of internal audit, the importance of internal audit, role of internal audit, legal and audit of Ethiopia, improve accountability and performance, opportunities of internal auditing, challenges of internal auditing, audit committee, responsibilities of audit committee, risk management, Control, Conceptual frame work and Conclusion. Chapter Three discusses about the methodology adopted to conduct the research. In the chapter the design and methodology is discussed in detail, the population and sampling, data source, research instrument is used, data collection techniques and data analysis procedures is stated. Chapter four presents data analysis and interpretation, and discussion of results. It answers all the research questions. Chapter five delivers the researcher's recommendations, conclusions and summary of the research based on the findings.

1.9. Definition of key Terms.

a. Internal audit standards: It refers the standards are based on the core principles and provide a framework for performing and promoting internal auditing. The standards are mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance(Jones, S and Higgins, A.D, 2006).
b. Independence of internal audit: 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. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others(Zhang, Y., Zhou, J. and Zhou, N. 2007).
c. Professional competency: The capability to perform the duties of one's profession generally or to perform a particular professional task, with skill of an acceptable quality and the broad professional knowledge, attitude, and skills required in order to work in a specialized area or profession internal controls, support of management(Chang, Y.T,2019).
d. Support of management: Essential information and support managers are responsible for the coordination of technical and information systems in an organization. They direct staff, determine necessary technology advances and educate employees on the use of software and hardware used in an organization's day-to-day operations(Ul-Hameed,W,2019).
e. Internal control**:** As define by COSO : “a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations. Reliability of financial reporting(Liao et al, 2019).
    f. Financial performance**:** It refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of an Organization's policies and operations in per rule and regulation terms(Dunjia, Y. J. (1997).

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

This chapter was reviewing various literatures in the fields of effect of internal audit on financial performance of Bureau of Finance and Economics development in Oromia Region State.

2.1 Nature and scope of internal audit

The internal auditor should work independently. The word independent implies that the audit work should be free from any sort of restrictions that may have a significant impact on the scope and effectiveness of the review process and on the reporting of the findings and conclusions(Hass et al.2006).Therefore, the internal audit work is detached from regular day-to-day operations of the organization (Woods et al. 2009).The word appraisal implies a critical evaluation and assessment of the existing controls and operations of the business enterprise(Venkatraman et al.1989).

The internal auditor should appraise on the basis of appropriate criteria. The management should organize an independent internal audit department and duties should be specifically assigned to the department. The terms of examination and evaluation describe the two fold functional roles and responsibilities of the internal auditor. Firstly the internal auditor should make an examination and enquiry for fact finding. Secondly he should make a judgmental evaluation after thorough examination. Internal audit aims at conducting a systematic examination of records, procedures and operations of an organization. The internal auditor should carefully examine the controls established inside the organization (Asare T, 2009).

In this sense internal audit can be described as control over other controls. Controls are essential for every organization. In the absence of controls, it would be impossible for any organization to protect its assets, rely on the records and perform its functions successfully. The internal auditor examines the effectiveness of each control system and traces out the deficiencies in each system (Gramling et al. 2013).

Internal audit is a service to the whole organization. The internal auditor is an employee of the organization. His services can be availed at any time of emergency. His advice can be obtained on any matter or point significant from the business and strategic point of view. His services can also be effectively utilized by other employees from the top to bottom (Coupland, et al, 1993).

Any employee can consult him in solving the day-to-day problems. The primary concern of an internal auditor is the phase of business activity where he can render any service to the management not only top management but all other managerial as well as operating staff (Schemer et al. 1986). Therefore, the internal auditor should be an expert in all branches of business. In this respect, the internal auditor is superior to the financial auditor and even the cost auditor (Court munched et al, 1991). His services are very useful to all the employees throughout the organization at all times. The terms 'To the Organization 'also signifies that internal audit is a total concept of service having a broad meaning and suggestion (Otley et al, 1994).

2.2 Responsible of internal audit of orgaganization

Internal auditors are responsible for key functions within the accountancy field. They provide an independent and objective assessment of a company's operations, specifically the effectiveness of its internal control structure. Within the audit field, professionals with the designation are among the most sought after and respected (Soh, D.S. and Martinov-Bennie, N, 2011).

Under Operations analysis an internal auditor often reviews procedures and operations closely, confirming that they are being followed correctly and that they support the organization's goals and objectives. After examining processes and procedures, the Internal Auditor reports his or her findings and works closely with auditee's to provide accurate and pertinent recommendations that help the organization to adhere more closely to its objectives (Ge, W &McVay, S, 2005).

In the compliance review an internal auditor supports senior management by staying fully educated about the intricacies of, implementation strategies for, and compliance with current regulations and legislation. An internal auditor is often responsible for explaining and detailing the impact that non-compliance would have on the organization, as well as reporting signs or instances of non-compliance (Sarens, G and De Beelde, I, 2006).

Control recommendation an internal auditor may also be expected to evaluate the efficiency and effectiveness of current controls and determines if those controls can truly mitigate risks that can threaten the organization. Effective internal control is a built-in component of the management process and keeps the organization on course toward its objectives and mission (Soh, D.S. and Martinov-Bennie, N. 2011).

Another common internal auditor function is to review how the organization protects its assets and assesses whether the appropriate safeguards are in place. If assets are not well protected, then the Internal Auditor must recommend appropriate changes (Alias N.F, Nawawi, A. and Salin, A.S.A.P, 2019).

2.3 The importance of internal audit

The internal audit function has received increasing attention as an important component of government financial management and a tool for improving the performance of the government sector. Recently, a consensus has been reached on what audit standards governments should meet (Liston-Heyes C. &Juillet, L, 2019).

Providing pertinent insights into an organization culture, policies, procedures and important controls regarding internal and external operations, risk mitigation and regulatory compliance; the role of internal audit in securing a business's compliance also feeds in to effective preparation for any external audits to be carried out. Furthermore, internal audit is a key strategic factor in securing successful client relationships (Yawised K. &O'Donohue, W, 2019).

Creating critical opportunities for objective insight into organization's assets, work and controls, the internal audit function is key in ensuring that the proper monitoring and safeguarding against threats is at work in Bureau of Finance &Development Economics more than valuable tool in supporting organization's risk management processes, the internal audit team spends a portion of their role calculating the potential risks to the organization in order to priorities them following a systematic assessment of their impact on the organization(Liston-Heyes C. &Juillet, L, 2019).

Emerging technologies and the issues of anti-bribery and anti-corruption are among the top considerations for internal audit currently along with regulatory compliance, data analytics and performance risk. In this way, the internal audit function must continue to strive to challenge the in order to mitigate risk, enhance controls and find ways to lower costs across an organization, all while seeking to create a more efficient operation in any way possible. Only then can the real value of internal audit be fully recognized. If businesses choose to overlook its worth, they will ultimately pay for that ignorance in more ways than one (Moheno et al, 2019).

The measurement of the internal audit function can involve a balanced scorecard approach (Sinha, V.K. & Arena, M, 2019).Internal audit functions are primarily evaluated based on the quality of counsel and information provided to the audit Committee and top management. However, this is primarily qualitative and therefore difficult to measure. "customer surveys" sent to key managers after each audit engagement or report can be used to measure performance, with an annual survey to the audit committee (Tuli, K, 2019).

Scoring on dimensions such as professionalism, quality of counsel, timeliness of work product, utility of meetings, and quality of status updates are typical with such surveys. Understanding the expectations of senior management and the audit committee represent important steps in developing a performance measurement process, as well as how such measures help align the audit function with organizational priorities. Independent peer reviews are part of the quality assurance process for many internal audit groups as they are often required by standards (Heinmöller, P.et al, 2019). The resulting peer review report is made available to the audit committee the role of audit (Bratten, B, Causholli, M. and Omer, T.C, 2019).

Internal auditors emphasizes that effectiveness of internal audit activity relies on satisfying both the attributes and performance standards (Ladipo et al, 2019).It outlines the purpose, authority, and responsibility of the internal audit activity and states that it must be formally defined in an internal audit charter, consistent with the definition of internal audit, the code of Ethics, and the standards (Munteanuet al, 2019).

It echoes that the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board or as it is known, audit committee (Dimitrova, J. &Paneva, N, 2019).

Specific issues which are highlighted under the attribute standards are independence and objectivity of the internal audit activity. Independence is explained as the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner (García L.S et al, 2019).

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor level, engagement level, functional level and organizational level (Rubin, I.S, 2019).

Objectivity requires that internal auditors do not lower their judgment on audit matters to others. Internal auditing will always operate within the dynamic contradiction of being part of the organization on one hand, and on the other hand trying to remain independent and objective (Cohen, N. &Gershgoren. S,2019).

The independence of the internal audit activity and the objectivity of the internal auditor can be improved by various factors, the most important being the reporting lines. Operationally or functionally, the chief audit executive should report to the audit committee, while administrative reporting should be to the accounting officer or the chief executive officer. (Liston-Heyes, C. &Juillet, L, 2019).The organization functions that have the closest links with internal auditing are the board of directors and its committees, top management as well as line management (Tayan. B, 2019).

For the board of directors, internal auditing main function is to provide them with assurance on organizational activities through its board committees, especially the audit committee. Internal auditing can thus, if needed, report effectively on management's fraudulent activities or non-implementation of the board's mandate by management (Garcia Sanchez et al. 2019).

2.4 Role of internal audit

Verify the existence of assets and recommend proper safeguards for their protection. Evaluate the adequacy of the system of internal controls. Recommend improvements in controls. Assess compliance with policies and procedures. Assess compliance with state and federal laws and contractual obligations (Garcia Sanchez et al. 2019).

Review operations to ascertain whether results are consistent with established objectives and whether the operations are being carried out as planned. Investigate reported occurrences of fraud, embezzlement, theft, waste, etc. The main role of internal audit include independent appraisal of internal control system, independent review of the efficient operation of the organization, proper safeguarding of asset and preventing and detecting fraud and errors (Ho & Hutchinson).Value of internal auditors to the organization internal auditor's deal with issues that are fundamentally important to the survival and prosperity of any organization (Garcia Sanchez et al, 2019).

Internal auditing in Ethiopia commercial code of Ethiopia (1960) governs the formation and operation of private companies in Ethiopia. The revised public enterprises proclamation (1992) governs the affairs of public enterprises. Financial reporting and external audit requirements of both private companies and State-owned enterprises are mainly guided by the commercial code of Ethiopia (GetieMihret, D, Mula, J.M. and James, K, 2012).

Legal documents and regulations specifically concerning internal audit include the federal auditor general proclamation (government of Ethiopia 1997), the Federal Government of Ethiopia financial administration Finance and Economic Development's (MoFED) internal audit manual (MoFED, 2004), and Privatization and Public Enterprises Supervisory Agency (PPESA) Regulations (Draft, S.F., 2009).

The auditor general proclamation monitored internal audit in both state owned enterprises and ministry organizations from 1987 to 1996. Since 1996 MoFED monitors internal audit in Government ministries and PPESA monitors internal audit in state Owned Enterprises. The office of the federal auditor general (OFAG) of Ethiopia is responsible for external audit of Federal ministries. The regional states also maintain auditor general offices. Furthermore, OFAG monitors the professional practice of accounting and auditing in the Country. In the business sector, the audit service corporation conducts external audit of State-owned enterprises and private audit firms undertake external audit of private companies (Plummer, J. ed, 2012).

2.5 Legal and audit of Ethiopia

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s just about the time when internal audit was evolving as an organized profession in the United States. Internal audit in Ethiopia, had its early legislative root in the constitution of 1923 which authorized the establishment of an "Audit Commission" (Articles 34); and the audit Commission itself was established much later by Proclamation 69/1944 to audit the accounts of the Ministry of Finance. (Constitution of 1923, Ethiopia, (Articles 34)).

The same Proclamation mandated the then Ministry of Finance to audit other budgetary institutions as a measure of internal control over the financial operations of the budgetary institutions. It appears that this early practice of internal auditing as per Proclamation 69/1944 was, in fact, to be the root of what the examination department of the ministry of finance and Economic Development (MoFED) continued to perform to this day, until the recent reorganization. In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices (Proclamation 69/1944).

Consequently, the Ministry of Finance and Economic Development (MoFED) has been mandated to develop a manual for internal audit in government organizations.The EPAAA has been reactivated and three other professional associations of 2012 are: The Ethiopian accounting finance association (EAFA).The Ethiopian chapter of the institute of internal auditors (IIA) andThe accounting society in Ethiopia (ASE) has been established.On July 1, 1997 the financial administration regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the office of the auditor general to the Ministry of regulation set out the responsibilities of the Minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established internal audit services; almost all public bodies discontinued pre-audit or pre checking (Council Of Ministers Regulations No.64/1999) .

In 1998 the Ministry of finance issued an operational audit manual to strength the audit function in the public bodies. According to this manual internal audit services are made to report to the top persons of the organizations. In May 2007 policy directive was issued to further strengthen the internal audit service function in the public bodies, however, the legal basis laid down by both in the regulations of Council of Ministers and the Ministry of Finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently public enterprises supervising authority has issued policy directive for establishment of audit committees in all public enterprises and an audit manual to maintain uniformity of audit work in all public enterprises (Amina Ahmed Muhammed, 2016).

Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States. Although, the prologue of internal auditing in our country counts half a century and all the above endeavors has made to the development of internal audit in Ethiopia there are challenges that hinders or slows the speedy growth of internal audit (Amina Ahmed Muhammed, 2016).

The internal audit standards of public bodies of the government of Ethiopia are contained in the audit procedural manual issued by the MoFED. The manual also states that the standards reflect the standards for the professional practice of internal auditing issued by the institute of internal audit. By taking into account this the current study takes the standard as a benchmark to assess the role of internal auditors in both public and private organizations found in Bureau of Finance &Economics Development of Oromia Region State selected areas so that it can be possible to identify the challenges facing for the development of internal audit in Ethiopia (Amina Ahmed Muhammed, 2016).

2.6 Improve accountability and performance.

In public sector organizations across the world, the internal audit activity is a preferred support provider, enhancing accountability and improving performance in government (Rika, N. & Jacobs, K, 2019). Thus, more countries have developed policies aimed at strengthening the internal audit activity within the public sector for the purpose of improving their capacity for contributing to these goals (Porter, M.E. & Kramer, M.R, 2019).

Measures in the policy should include amongst other such as the following: establishment of internal audit units; establishment of principles for the professional conduct of internal audit work; training and development; increase reporting arrangements as such widening authority to:

allocation of resources; and broadening the mandate to make both internal and external auditors performance assessment Organization (Liston-Heyes, C. &Juillet, L, 2019).

Additionally, due to the fact that internal auditing is seen as an important tool for accountability led to the United States transferring internal audit activity to the inspectors general who report audit exceptions to both the executive and to congress (Chow, D. &Aggestam Pontoppidan, and C.2019).

In order to determine internal audit efficiency, evaluation principles are important to analyze the model of internal audit (Boiral et al, 2019). Undoubtedly, the large amount of definitions that is given by many researchers depicts the importance of internal auditing. More specifically, it is defined as an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization (Steiss, A.W, 2019).

By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, becomes an important managerial control device, which is directly linked to the organizational structure and the general rules of the organization (Bermanet al.2019).

Accounting association, the financial executives institute, the institute of internal auditors and the institute of management accountants have been adopted as the generally accepted framework for internal control and are widely recognized as the ultimate standard to assess the effectiveness of internal control system. In this perspective, the Committee of Sponsoring Organizations of the tread way commission (COSO) model defines internal control as follows:

A course of action which is put in place by an organization's executive, senior management and other personnel and its purpose is to provide reasonable assurance that objectives will be achievement. This can be achieved by paying attention to the following: effectiveness and efficiency of operations, reliability and integrity of the financial information as well as compliance with applicable laws and regulations (Liao et al, 2019).

The internal audit activity assists with key activities that fall within the audit committee's area of responsibility and that the reporting relationship is key to effective practice of audit, not to mention objectivity (Jenkins, J.G. & Stanley, J.D, 2019). In addition to that, it is the recommendation of the independence of internal audit that the internal audit activity reports directly to the audit committee(Eulerich. M et al, 2019).

In this regard, independence of the internal audit will be enhanced and an objective evaluation of internal controls can be accomplished. The challenge that the board faces is how it can measure that an effective internal audit activity was operational for a particular period covered by the integrated report (Tuli, K, 2019).

The institute of internal auditors (IIA) is the governing body of the profession, but not all individuals practicing as internal auditors are registered with the IIA (Liston-Heyes, C. &Juillet, L, 2019).It could be argued that most internal auditors who qualify for membership would want to register as this brings many advantages, such as joining a worldwide network of professionals, increased knowledge and professional guidance amongst others. The criteria for membership differ from country to country, but in short, the minimum requirement for membership of the IIA is a bachelor's degree or equivalent from a recognized institution of higher education, combined with suitable work experience. Secondly, the only officially recognized internal audit certification is the certified internal auditor (CIA) designation, owned and managed by the IIA, and this remains the only official standard by which individuals unmistakably demonstrate their competency and professionalism in the internal audit field (Jahan, S., Marshall, A. and Gamble, R., 2019).

A fair statement would be to conclude that the CIA designation is a reflection of the perceived competence of internal auditors. This again reflects on the quality of activities performed by internal auditors, directly influencing the standing of the internal audit activity. (Liston-Heyes.C. &Juillet, L, 2019).

2.7 Risk management

It is an integral component of good management and decision-making at all levels. Risk management is about making decisions that contribute to the achievement of an organization's objectives (KliemR.L&Ludin, I.S, 2019). It assists with decisions such as the reconciliation of costs with benefits and expectations in investing limited public resources, the governance and control structures needed to support due diligence, responsible risk taking, innovations and accountability. Risk management is a continuous, proactive and systematic process, affected by a department's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the department, designed to identify potential events that may affect the department, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of department objectives (Závadský, J et al.2019).

Core theories on financial risk management indicate effectiveness of financial risk management to transcend the mere establishment of essential policies and regulatory frameworks (O'brien, J., 2019). In addition to the commonly used cyclical approach for financial risk identification and management, the other essential factors include top management's support and commitment towards risk management initiatives, a culture of total organizational risk management, and communication and consultation of the stakeholders on financial risk management initiatives (Corrêa et al,2019).

As much as the overall understanding and application of risk assessment measures at the lower governmental structures is important, the overall buy-in of the top management is also essential. The commitment and support of the senior managers influence the integration of the concept of financial risk management during the strategic planning process and the overall process associated with project conceptualization (Huda, M et al. 2019).

This enhances the cascading of the expected financial risk management approach down to the lower echelons of the organizational structures. The notion of a culture of total organizational risk management connotes the situation under which every manager, supervisor and employee willingly embraces the notion of risk management in all the processes of activities' accomplishments (Dhir, S. 2019). With every employee aware of the total organizational risk management initiative and the notion of risk management integrated in the process of strategy formulation and implementation, it becomes easier for a government department to tackle risks from all angles (Al Nahyanet al.2019).

The second stage involves collecting information on management's assessment of the previously identified risks and determining how these are currently being managed by the entity (Kerzner, H., 2019). This, in effect, entails a preliminary assessment of the control environment (as mentioned before, internal control is only one mean of managing identified risks). The point of this stage is to gain management input on the assessed level of the previously identified risks, and on their management approach (Ansoff, et al.2019).

This enables internal audit to filter and priorities risks, in order to develop its periodic audit plan. In other words, at the end of this stage, the internal audit teams should be able to decide which risks should be reviewed to ensure that they are propel managed, when and how they should be reviewed. As a result, the risk register at this point does not only contain a complete list of previously identified risks, but it can also be filtered to produce a list of risks that will be subject for review by internal audit (Rika, N. and Jacobs, K, 2019).

The considers a potential factors including - internal audit standard ,independent of internal audit, professional competence, support of management and internal control, to explain audit effectiveness, and demonstrate how the interaction of these factors improves audit effectiveness. Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it was of value to the organization and earn a reputation in the organization. The Ministry of Finance and Economic Development (GetieMihret, et al, 2007).

Further indicates that internal audit has to evaluate its performance and continually improve its service. Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated. Audit findings and recommendations would not serve much purpose unless management is committed to implementing them. Agency theory is used to explain that it is in the interest of management to maintain a strong internal audit activity (GetieMihret et al,2007).

Implementation of audit recommendations is highly relevant to audit effectiveness and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness. Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office and the organizational policies and procedures that guide operation of auditees. It provides the context in which internal audit operates. Thus, organizational setting can put forth influence on the level of effectiveness that internal audit could achieve. The auditeeattributes relate to the capability of the auditee to meet its intended objectives (GetieMihret et al,2007).

Auditee attributes with implications on audit effectiveness include the auditees' proficiency too efficiently and effectively meet organizational goals; their attitude towards internal audit; and the level of cooperation provided to the auditor. Since, the four factors discussed above are linked; audit effectiveness is an active process that results from the effect of each factor and the interaction among all (GetieMihretet al .2007).

Audit quality and management support strongly affects audit effectiveness. Better audit effectiveness, in turn, has a positive bearing on these two factors. If internal audit enhances quality to the extent it elicits management's interest, management support would be a natural because the management would realize the contribution of internal audit to the achievement of organizational goals (Ahmad et al. 2009).

This would positively reflect on audit quality and enhance audit effectiveness. The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness. Further, management retains the authority to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn, benefits audit quality(Khudhair, D. Al-Zubaidi F and Raji, A.2019).

On-going monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity (Lussier, et al, 2019). On-going monitoring is incorporated into the routine policies and practices used to manage the Internal Audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the definition of Internal Auditing, the Code of Ethics, and the standards. Periodic reviews are assessments conducted to evaluate conformance with the definition of internal auditing, the Code of Ethics, and the standards (Johnstoneet al.2019).

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the international professional practices framework (Kranacher, M.J. & Riley, R, 2019). It further indicates that the internal audit activity is seen to be effectively managed when the results of the internal audit activity's work satisfies its "purpose and responsibility" as outlined in the internal audit charter and it is conventional with the definition of internal audit activity. In being conventional, the internal audit activity should add value to the organization by providing independence, objectivity and relevant assurance as well as contributing to the effectiveness and efficiency of control, risk management and governance processes. Governance processes are assessed with the purpose of promoting appropriate ethics and values within the organization; making sure that the organizational performance is effectively managed and accountability is not compromised; communicating the effectiveness of risk management and internal control to the relevant officials (Munoz-Torres et al, 2019).

In assessing the effectiveness of risk management processes, internal auditors agree that the two most important ways that internal auditing provides value to the organization are in providing objective assurance that the major organization risks are being managed appropriately and providing assurance that the risk management and internal control framework is operating effectively(Liston-Heyes, C. &Juillet, L., 2019).

Outlines the internal auditing core roles in regard to risk management as follows; reviewing the management of key risks; evaluating the reporting of key risks; evaluating how the risk management process unfolds and provide reasonable assurance of the effectiveness of the process; providing assurance that the risks are correctly evaluated. Other legitimate roles that internal audit can undertake without compromising their independence are as follows; facilitation of risk identification and evaluation; coaching management on how to respond to risk; coordinating of enterprise risk management activities; consolidated reporting on risk; developing and maintaining organization risk management framework; championing the establishment of the organization risk management and developing risk management strategy for board approval(Aking bola et al,2019).

2.8 control system of organization

Any control system intends to ensure that the intended objectives or targets of an activity are fulfilled (Steiss, A.W, 2019). This implies that financial management control system should target to achieve the financial goals of an organization. The tools for financial management control include planning and budgeting, proper record keeping, good information system, quality staff, as well as reporting and accountability mechanism (Modugno, G. & Di Carlo, F, 2019).

Defined financial control as the procedures designed to protect assets and ensures that all financial transactions are recorded to prevent and reduce errors and fraud (Hamid, A.F, 2019). Again, financial control is to provide an overall guiding framework for a sound and efficient management resource in all organization. The aim of having a strong system of financial control is to promote the institutions ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through budget, organizational control and encouraging adherence to prescribed policies and regulations (Porter, M.E. & Kramer, M.R., 2019).

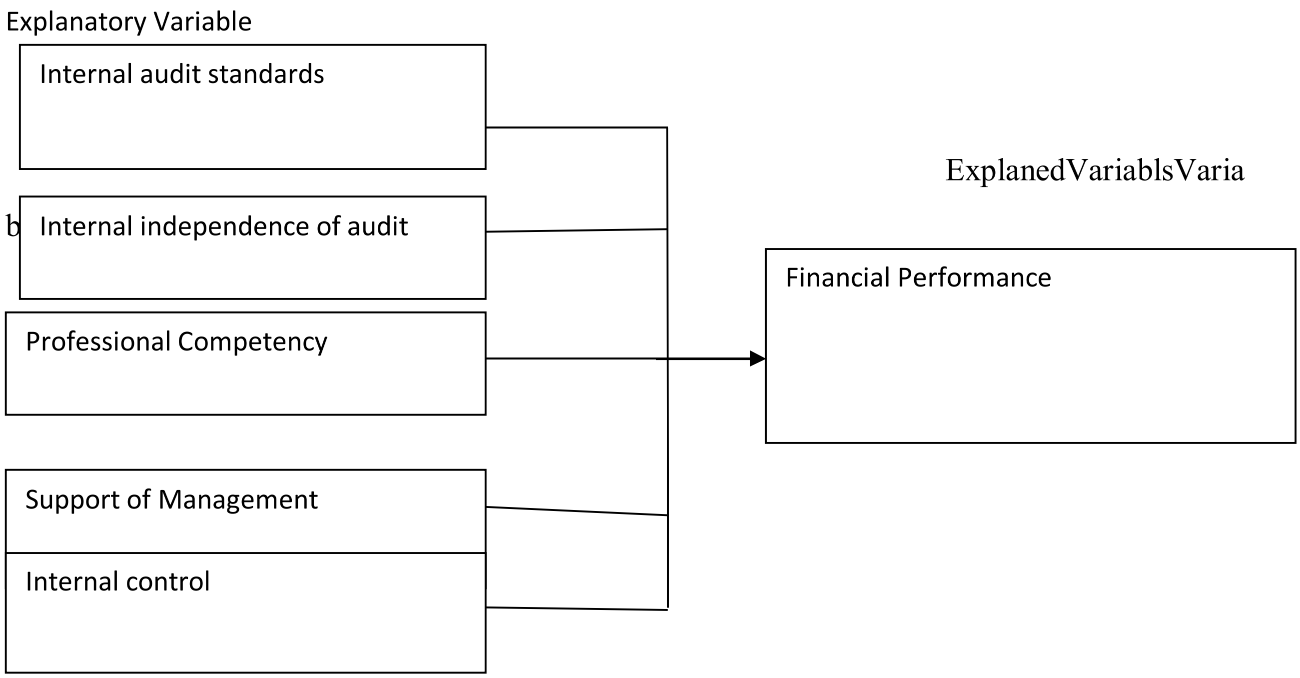
An institutions system of financial control has a key role in the management of risks that are significant to the fulfillment of its operational objectives. A sound system of financial control contributes to safeguarding the stakeholders' investment and the institutions assets. Financial controls facilitate the effectiveness and efficiency of operations helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations. Effective financial controls including the maintenance of proper accounting records are an important element of internal control. They help ensure that the institution is not unnecessarily exposed to avoidance financial risks and the financial information used within the organization and for publication is reliable (Garzaet, 2019).

2.9 Research gaps

From the literature review, several researchers seem to be together that there was a link between internal audit and financial performance of Bureau of Fiancé &Development in Oromia Region state. These conclusions would confirm after empirical evidence would obtain from the research and not identify prefer studied how management support and Understanding more effective, concerns on audit software's Such as automation, fraud detection**,** audit exporting, data mining and network security internal audit unit needs much more emphasis. This providing gab to study as explained above.

2.10 Conceptual Framework

Atheoretical structure of assumption, principles,and rules that holds together the ideas comprising broad concept(Sanchez Lasaballett, E, 2019).



The conceptual framework illustrates asabove on Figure.2.1 they explained and explanatory variables. The explained variable in this study is financial performance of Bureau of Finance & economics Development in Oromia Region state. The explanatory variables include internal audit standards, internal independence of audit, professional competency, support of management and internal control(Sanchez Lasaballett, E, 2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3. INTRODUCTION

This chapter sets out various stages and phases that were followed in completing the study. It involved a plan for the collection, measurement and analysis of data. Specifically the following sub-sections were included; research design, target population, data collection instruments,descriptivestatistics,inferentialstatistics,reliability and validity data collection procedures and finally data analysis.

3.1 Research design

The study is used a descriptive survey study research design which is aimed at examining the effect of internal audit on financial performance of Bureau of Finance &Economics Development in Oromia Region state. A descriptive survey is usually concerned with describing a population with respect to important variables with the major emphasis being establishing the relationship between the variables (Kumar, R, 2019).

The advantage of this type of research design is that it is easy to understand as recommended by (Kothari,2019).This design attempts to collect data from members of the population and describes existing phenomenon with reference to audit function (Kumar. R, 2019).The study is used a cross-sectional study because data is collected from a cross-section not in different period of time but it is taken once. Both primary data are used while describing the data that is gathered through questionnaires (Hartmann, C. 2019).

3.2 Target population

A population has been defined as the total collection of elements about which inferences are made and refers to all possible cases which are of interest for a study (Little, R.J. and Rubin, D.B., 2019). Other scholars like Smith (2011) view population as the large collection of all subjects from where a sample is drawn (Alves, J.M, 2019). The population of the study is 102.Those were chief internal auditors, accountant and employees of workers on fund in Bureau of Finance & Economics Development in Oromia Region state. The population was justified on the basis that the primary data on financial performance is used on an organization basis total population was 102 (Human resource Management of Organization, 2019) and secondary data from web site of organization and annually report. (Resource annually report, 2018).

3.3Sample size and sampling technique

Sample size determination (Kotrlik, J.W.K.J.W and Higgins, C.C.H.C.C, 2001):

n = *z2* * p * q * N / *e2* (N – 1) + z2 * p * q

N = 102

e = 0.04(estimate within 4% of true value)

z = 1.96 (as per the table of area under normal curve for the given confidence level of 95%)

p = the estimate proportion of defectives in the population 0.04

q = sample proportion, *q = 1 – p*

The study is conducted purposive sampling is 65.These are internal auditors, senior auditor, senior internal auditor, and cluster manager and above and other (Specify) in Bureau of Finance & Economics Development in Oromia Region state. As Mugenda and Mugenda (2003), define purposive sampling as a method that allows the researcher to use cases that have the required information depending on the objectives of the researcher. According to (Brown, E.D. and Williams, B.K, 2019).

Purposive sampling is also known as deliberate sampling which involves the deliberate selection of particular units of the sample size. Purposive sampling therefore saves on time and resources that the researcher would have used to collect the information. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which enables the researcher to answer the research questions (Mugenda, O.M. and Mugenda, A. G ,2003).

3.4 Data collection procedures

There are many methods of data collection (Tanzi, T.J. and Isnard, J., 2019). The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results (Merriam, S.B. and Grenier, R.S. eds., 2019). Qualitative research in practice,this is because each tool and instrument collects specific data (Muggleton, N, 2019).

Notes that there are two major sources of data used by respondents 'primary and secondary data (Gindling, T.H, 2019) .The researcher administers a survey questionnaire to each member of the target population (Chin, B.H. and Coroneos, C.J, 2019). The questionnaire is carefully design and tests with a few members of the population for further improvements. This would do in order to improve its validity and accuracy of data is collected for the study. The researcher self administered the questionnaires individually to selected employees of Bureau of Finance &Economics Development as indicated in appendence of No 2 at end this paper. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received and to achieve this, the researcher maintained a register of questionnaires which were sent and which were received (Chin, B.H. and Coroneos, C.J. 2019).

3.5 Data analysis and presentation

Data was analyzed using Statistical Package for Social Sciences (IBM SPSS version 22.00) program. Both quantitative analysis and regression analysis was used as data analysis technique. The data collected was run through various models so as to clearly bring out the effect internal audit on financial performance of Bureau of Finance & Economics Development and model was used to analyze the regression equation.

The focus of this dissertation, as discussed in chapter 1, study would confirm after empirical evidence is obtained from the research. The study measured performance through sustainable growth of economy in OromiaRegion state. The set of explanatory variables includes internal audit standards, independence of internal audit, professional competency of internal audit, outcome of the support management and internal control in the Organization (Tagami, S., Barada, D. and Yatagai, T., 2019).

3 .6 Descriptive statistics

Descriptive statistics like mean, frequency, and percentage is used to profile sample characteristics and major patterns emerging from the data. As a result the demographic characteristics of the respondents are easily visible to the reader (Smith et al, 2016).

3.7. Reliability and validity

A Cronobach‟s Alpha test is identified by IBM SPSS version 22.00. The pilot test result of reliability and validity was strong. In this area everything was analyzed and summited scores were computed for the factor classes to decide the reliability of outcome. Every one of the things (proclamations) in the survey were investigated and the scores for factor classes were summated.

Table:3.1: Reliability Statistics for the entire scale

Reliability statistic

Variables	Cronbach's Alpha
PC	.862
IC	.903
ISA	.775
IIA	.865
SM	.727

Source: Research (2019)

All factor categories hadCronbach'sα Value greater than o.70 meaning that internal consistency was adequately proven.Cronbach'sαValue fall between .727 to.903 they are considered acceptable.

3.8 Conceptual model of equestion.

The conceptual model was determine explaine and explanatory variablein the study wherefinancail Performance. Researcher determanedthesearethe effect of internal audit standards on Financaiol Performance of organization by ias perspective of measured using the level of adoption of variance in internal audit standards in organization (Jones, S and Higgins, A.D, 2006). The secand effect of internal audit Financial Performance of organization was internal audit that measured by using area of an independence if internal audit by independence of internal audit (Zhang, Y., Zhou, J. and Zhou, N. 2007).The third effect of internal audit financial performance of organization by measuredbyprorfetional competency of internal auditorin specific technic used that measured uses of latest audit software's such as automation, fraud detection**,** audit exporting, data mining and network security(Chang, Y.T,2019). The fourth effect of internal audit Financial Performance of organization by support of management in the internal audit in activity of organization.(Ul-Hameed,W,2019).and the last one finacaiol performance effected byactivited by internal control system in organization (Steiss, A.W, 2019).

In this study the explained variable (fiancaiol performance) and explanatory variables include internal audit standards, independence of internal audit, professional competency,support of management and internal controls.

From discesed above overview of point the following conceptual model was modified in the study wherefinacailPerformanceis a function/regression linearform of internal audit standards (IAS), independence of internal audit (IIA), professional competency (PC), support management (SM) and internal control (IC) in the Bureau of Finance Economics Development:(Fox, J, 2015).

FP= *f (IAS, IIA, PC,* SM*, Cit.)* -- *(1)*

Where

FP = Financial performance of organization

IAS = Internal audit standards

IIA = Independence of internal audit

PC = Professional competency

SM= support of management

IC = Internal controls

Analytical Model

The following regression mode was used to perform data analysis

$Y= \beta_0+ \beta_1 x_1 + \beta_2 x_2+ \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 +\varepsilon$ ………………… (2)

$\beta_0$is represents coefficient of constant term.$\beta_1$is represents coefficient of internal audit Standards and x_1 internal audit standards and is measured using the level of adoption of the various internal audit standard by Bureau of Finance and Economics Development.$\beta_{2=}$represents Coefficient of independence of internal audit and x_2 independence of internal audit and is measured using the area independence of internal audit in perspective in Bureau of Finance and Economics Development. $\beta_3$isrepresents coefficient of professional competency and x_3 professional competency is measured by the level of professional competency of internal auditor in specific in Bureau of Finance and Economics Development.$B_4$is represents coefficient of the and x_4 support management is measured using the assistance of support management for internal auditor at work area in Bureau of Finance and Economics Development.B_5represents coefficient of internal controls and x_5 internal controls is measured internal Controls systems in organization.and ε is error term.

Performance of the Bureau of Financial & Economics Development was measured using financial performance measures which include the effeteness of audit of the organization that is sustainable growth economy on Region state. Internal audit standards were measured using various internal audit standards adopted by Organization. The independence of internal audit was measured using the area of independence of internal auditor in organization. Professional competency was measured by the level of professional competency of internal auditor in specific the techininical activity of organization.The support of management supported by managerial in the internal audit for internal auditor in activity of organization and internal control was measured by the various internal controls system in organization.

3.9 Summary& Conclusion

This chapter presents a discussion of the research design, data collection, and construction of variables used in the analysis of the research question. The data collected was organized in Statistical package for social Sciences (IBM SPSS version 22.00) program. Both quantitative analysis and regression analysis was used as data analysis technique. As noted earlier, the explained variable for both models was a dichotomous binary variable. Therefore, the method being used to evaluate the data was legit regression. The results of that analysis are presented in the next chapter.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4. INTRODUCTION

This chapter deals with the analysis, interpretation and discussion of the data gathered from the desk studied and questionnaires survey. Information was divided into two sections in this chapter. Analysis of the respondents, general information was detailed in the first section, while the second section dealt with descriptive and inferential to analyze the data on objectives.

4.1 Questionnaire response rate

Detailed questionnaire were designed and distributed to understand the causal effect between internal audit and financial performance of Bureau of Finance & Economic Development of Oromia Region government state. Questionnaires were 65 were conveyed, out of which 65 were filled and returned which is a response rate of 100%. This response rate was viewed as agree able for the examination.

This reaction rate was appropriate since according to Mungend&Mungenda (2003) who stipulated that a half response rate was sufficient for investigation and announcing; reaction rate was great and a 70% and over was excellent. For the diligent subsequent meet-up. The eagerness of the respondent's to take interest in the examination is shown by the reaction rate. Table 4.1 beneath demonstrates the quantity of surveys dispersed and returned from the respondents including their response rate.

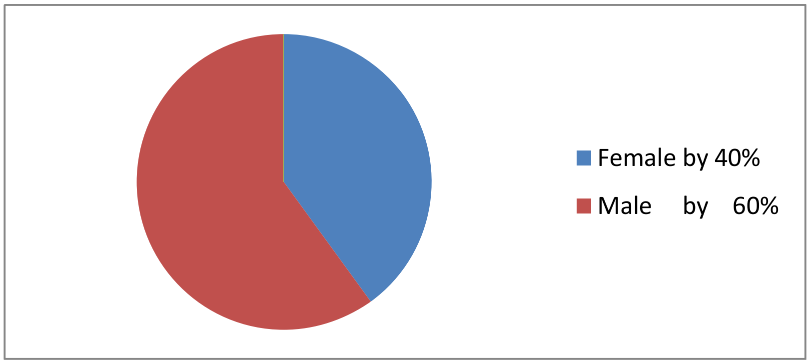
Table 4.1: Response rate

Respondents	questionnaire distributed	Questionnaire returned	response rate
	65	65	100%

Source: Research Data (2019)

4.2 Demographic information

Fig.4.1 gender



Source: Research Data (2019)

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 60% were males whereas 40 % of the respondent were females, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

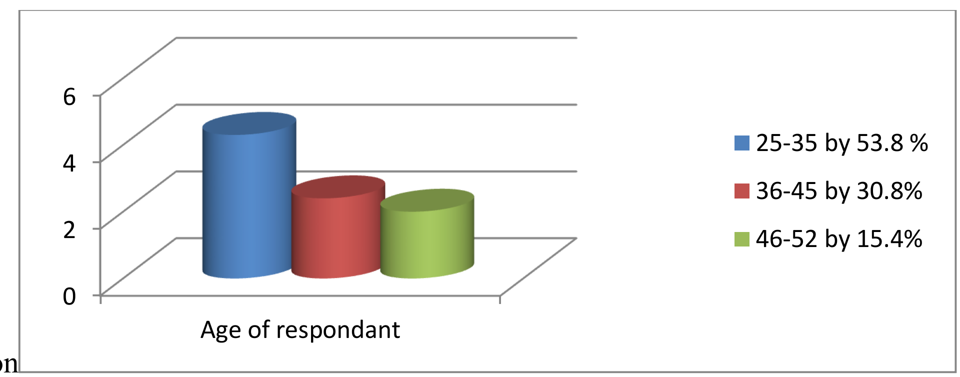
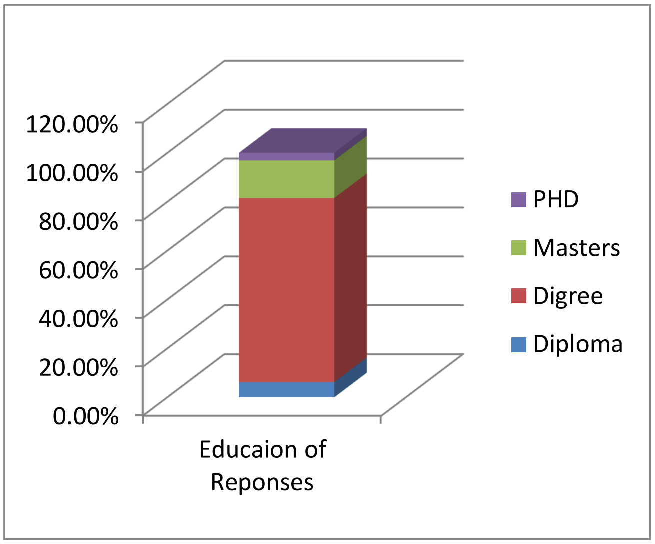


Fig.4.2 age distribution

Source: Research Data (2019)The study requested the respondent to indicate their age category, from the findings, 53.8 %of the respondents indicated that they were aged the highest present between 25 to 35 years, 30.8 % of the respondent indicated they were aged between 36 to 45 years, whereas 15.4 % of the respondents indicated that they were aged the smallest presentbetween 46 to 53 years. This is an indication that respondents were well distributed in terms of their age

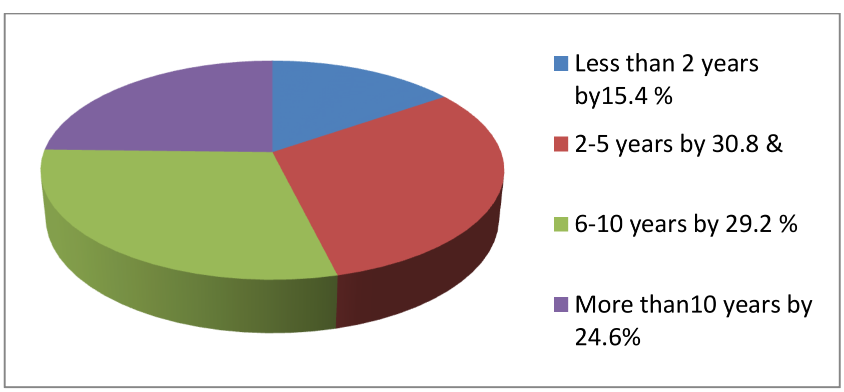
Fig.4.3 Education of Reponses



Source: Research (2019)

The study requested the respondent to indicate their highest level of education. From the findings it was established that 75.34 % of the respondent indicated their highest level as degree, 15.4% of the respondent indicated their highest level as college masters, and 6.2 % of the respondents indicated their highest level of education as diploma, whereas 3.10% of the respondents indicated their highest level as PH. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education.

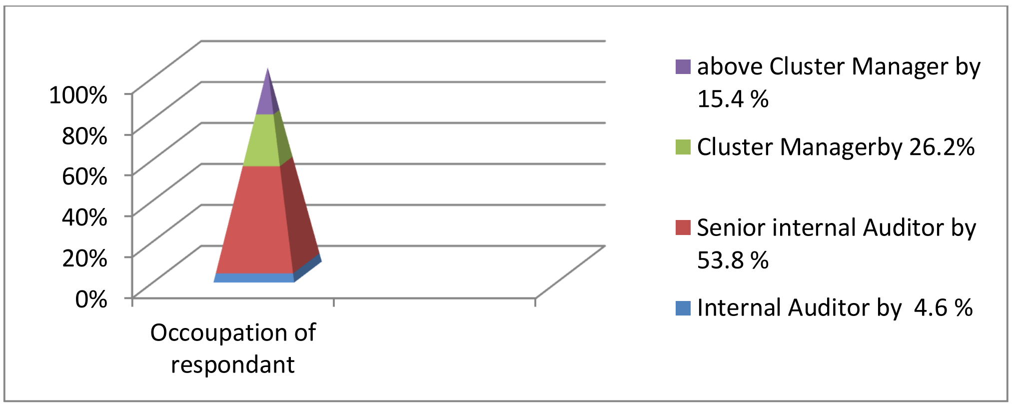
Fig.4.4 Experience of responses



Source: Research (2019)

The study requested respondent to indicate the number of years they had served. From the findings the study established that 15.4%of of the respondents had worked for a period of ranging less than 2 years,30.8 % of the respondents had worked for a period of ranging 2 to5 years , 29.2 % of the respondent indicated that they had worked for a period raging between 6 to 10 years and finally 24.6% of the respondents had worked for a period of ranging more than10 years, this implies that majority of the respondents had served for a considerable period which indicates that most of the respondents had vast knowledge which could be relied upon by this study.

Fig.4.5 Occupation of Responses



Source: Research (2019)

The study requested the respondent to indicate their highest level of Occupation. From the findings it was established that 4.6% ofthe respondent indicated their Occupation level as internal auditor, 53.8 % of the respondent indicated their highest Occupation level as senior internal auditor, 26.2 % of the respondent indicated their Occupation level as cluster managerand15.4 % of the respondents indicated their level of Occupation as above cluster manager. This is an indication that most of the respondents focused in this study had senior internal auditor as their highest level of occupation.

4.3 Determination of level of agreement questionneirregard to explanatory varaibls

.Table.4.2: Level of agreement questionneir of internal control

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	26	40.00	40.00	40.00
	agree	20	30.8	30.00	70.8
	neutral	19	29.2	29.20	100.0
	Total	65	100.0	100.00	

Source: Research (2019).

The study required to determine the level at which respondents strongly agree, agree andneutral with the above statements relating to Internal Controls and financial performance of Bureau of Finance & Economic co-operation in Oromia region state, from the findings the study established that majority of the respondents'strongly agree by 40% and the secondrespondents'strongly agree by 30.8% and the last one respondents' neutral by 29.2%.

Table.4.3: Level of agreement questionneir of internal audit standards

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
agree	26	40.00	40.00	40.00
neutral	20	30.8	30.8	70.8
disagree	19	29.2	29.2	100.0
Total	65	100.0	100.0	

Source: Research (2019)

The study required to determine the level at which respondents, agree, neutral and disagree with the above statements relating to internal audit standards and financial performance of Bureau of Finance &Economic co-operation in Oromia region state, from the findings the study established that majority of the respondents' agreed by 40% and the second respondents' strongly agree by 30.8% and the last one respondents' neutral by 29.2%

Table.4.4: Level of agreement questionneirofindependence of internal audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	29	44.6	44.6	44.6
	agree	10	15.4	15.4	60.0
	neutral	20	30.8	30.8	90.8
	strongly disagree	6	9.2	9.2	100.0
	Total	65	100.0	100.0	

Source: Research (2019).

The study required to determine the level at which respondents strongly agree, agree, neutral and strongly disagree with the above statements relating to independence of internal audit and financial performance of Bureau of Finance &Economic development inOromia region state, from the findings the study established that majority of the respondents' strongly agree by 44.6% and the second respondents' neutral by 30.8% and the last one respondents' neutral by 15.4%. and finally respondents'stronglydisagree by9.2%.

Table.4.5: Level of agreement questionneir of Support of Management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	32	49.2	49.2	49.2
	agree	32	49.2	49.2	98.5
	neutral	1	1.5	1.5	100.0
	Total	65	100.0	100.0	

Source: Research (2019).

The study required to determine the level at which respondents strongly agree, agree and neutral with the above statements relating to support of management and financial performance of Bureau of Finance &Economic Devlpment in Oromia region state, from the findings the study established that majority of the respondents' agreed by 49.2% and the same amount respondents' strongly agree by 49.2% and the last one respondents' neutral by 1.5%.

Table.4.6: Level of agreement questionneir of Professional Competency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	16	24.6	24.6	24.6
	agree	39	60.0	60.0	84.6
	neutral	10	15.4	15.4	100.0
	Total	65	100.0	100.0	

Source: Research (2019).

The study required to determine the level at which respondents strongly agree, agree and neutral with the above statements relating to Professional Competency and financial performance of Bureau of Finance &Economic co-operation in Oromia region state, from the findings the study established that majority of the respondents' agreed by 60% and the second respondents' strongly agree by 24.6% and the last one respondents' neutral by 15.4%.

4.4 Internal audit standards

The study required to determine how internal audit standards influenced Bureau of Finance & Economics Development financial performance in Oromia Region state.The summary of the discovered findings is shown in table.

Table.4.7: Internal audit standards

Internal audit standards	No	Mean	Std. Deviation
Performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing	65	1.62	0.744
Standards for audits and audit-related services influence the performance of Bureau of Finance &Development in Oromia Region state.	65	1.94	0.747
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports	65	2.49	0.664
Auditors to carry out their function objectively and incompliance with accepted criteria for professional practice	65	2.03	0.918
Internal audit evaluate and contribute to the improvement of risk	65	1.63	0.651
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports	65	2.49	0.664
Complying with professional standards is the most important contributor to internal audit‘s added value	65	2.2	0.971

Source: Research data, (2019

The respondents were consequently given statements to rate on a like scale. In light of the discoveries, the respondents concurred that Standards for audits and audit-related services influence the performance of Bureau of Finance &Development in Oromia Region state. By a 1.94 mean and a .747standard deviation. Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. This was represented by a 2.49 mean and a 0.664standard deviation. Further examination demonstrated that performing work internal audit as per the standards of internal audit contributed alto*gether* too internal audit effectiveness Mean=1.62, standard deviation=.744 and the internal auditors in their organizations coactively carried out their function complied with the acknowledged professional practice criteria mean=2.03, standard deviation=0.918. The respondents likewise demonstrated that formal auditing guidelines in their organization recognized the fact internal auditors additionally proved services with respect to information other than financial reports as per as represented by a 2.49 mean and a 0.664 standarddeviation. It was likewise settled that organizations' internal Audit standards contributed to better risk management ,control and governance by utilizing an approach that's both systematic and disciplined in the Bureau of Finance &economics Development mean=1.63, 0. 651standard deviation and finally complying with professional standards is the most important contributor to internal audit's added valuereports as per as represented by a 2.2 mean and a 0.9971 standard deviation.

4.5 Professional competence

The study sought to determine how Professional Competenceeffect on financial performance of Bureau of Finance & economics Development. The summary of the discovered findings is shown in table

Table.4.8: Professional competence

Professional Competence	N	Mean	Std. Deviation
Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance by ability of respondent	65	2.92	0.735
Frauds are identified by the internal audit function	65	1.95	1.082
Measures that can improve the efficacy of auditors are important for effective fraud detection	65	1.43	0.901
Conscientiousness correlates with task performance just as strongly as cognitive ability	65	`2.03	0.918
The auditors in organization are qualified to undertake audit function need train with latest audit's soft ware	65	2.18	0.808

Source: Research data (2019)

The respondents were consequently given statements to rate on a like scale. In light of the discoveries, the respondents concurred that Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance by ability of respondent the performance of Bureau of Finance &Development in Oromia government state. By a 1.92 mean anda 0.735 standard deviation. Frauds are identified by the internal audit function. This was represented by a 1.95 mean and a 1.082 standard deviation. Further examination demonstrated that Measures that can improve the efficacy of auditors are important for effective fraud detection o fProfessional Competence contributed alto*gether* too Professional Competence effectiveness Mean=1.43, standard deviation=0.901 and the Conscientiousness correlates with task performance just as strongly as cognitive ability mean=2.03, standard deviation=0.918.

The respondents likewise demonstrated that The auditors in organization are qualified to undertake audit function the fact Professional Competence additionally proved services with respect to information other than financial reports as per as represented by a 2.89 mean and a 0.808 standard deviation.

4.6 Internal controls

The study sought to determine how Internal Controls effect on financial performance of Bureau of Finance & economics Development. The summary of the discovered findings is shown in table

Table 4.9: Internal control

Internal controls	N	Mean	Std. Deviation
Controls audits in the organization have features built into them to ensure that fraudulent truncations are flaggedic1 or made difficult to transact	65	2.18	0.808
Intentional errors are concentrated in relatively few audits and these are fairly predictable by organization	65	2.4	0.494
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting due to lack of on audit software‘s Such as automation, fraud detection, audit exporting, data mining and network security	65	2.18	0.983
Cash receipts bear fairly strong controls in your organization	65	2.18	0.808
The greater the degree of competition, the greater would be the need to control costs	65	1.65	0.856

Source: Research data (2019)

The respondents were consequently given statements to rate on a like scale. In light of the discoveries, the respondents concurred that Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made difficult to transaction effect the performance of Bureau of Finance &Development in Oromia Government state.By a 2.18 mean and a 0.808 standard deviation. Intentional errors are concentrated in relatively few audits and these are fairly predictable by Organization. This was represented by a 2.4 mean and a 0.494 standard deviation.

Further examination demonstrated that The lack of segregation of accounting and custodian functions hinders fraud detection and reporting due to lack of on audit software‘s Such as automation, fraud detection**,** audit exporting, data mining and network security and reporting effeteness on Financial performance Mean=2.18, standard deviation=0.983 and the Cash receipts bear fairly strongcontrols in organization mean=2.18, standard deviation=0.808.The respondents likewise demonstrated that a greater the degree of competition, the greater would be the need to control costs as per as represented by a 1.65 mean and a 0.856 standard deviation.

4.7 Independence of internal audit

The study wanted to determine how independence of internal auditeffect on financial performance of Bureau of Finance & economics Development. The summary of the discovered findings is shown in table

Table4.10 :Independence of internal audit

Independence of internal audit	N	Mean	Std. Deviation
The internal audit department in an organization must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processed	65	2.46	1.017
An internal auditor must be independent of both the personnel and operational activities of an organization	65	2.05	1.067
The integrity of the auditor's opinions, conclusions and recommendations would be suspect	65	2.23	0.702
Independence is necessary for the effective achievement of the function and objective of internal audit	65	2.05	0.909
Independence is the essence of auditing	65	1.74	1.035

Source: Research data, (2019)

The respondents were consequently given statements to rate on a like scale. In light of the discoveries, the respondents concurred that the independence of internal auditdepartment in an organization must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes the performance of Bureau of Finance &Development in Oromia Government state. By a 2.46 mean and a1.017 standard deviation.An internal auditor must be independent of both the personnel and operational activities of an organization. This was represented by a 2.05 mean and a 1.067 standard deviation.

Further examination demonstrated that integrity of the auditor's opinions, conclusions and recommendations would be suspect contributed alto*gether* too independence of internalauditeffectivenessMean=2.23, standard deviation=0.702 and the independence is necessary for the effective achievement of the function and objective of independence of internal auditmean=2.05, standard deviation=0.909 .The respondents likewise demonstrated that independence is the essence of auditing as per as represented by a 1.74 mean and a 1.035 standard deviation. It was likewise settled that organizations' independence of internal auditcontributed to internal audit evaluate and contribute to the improvement of risk mean=1.63, 0. 65 standard deviation.

4.8 Support of management

The study sought to determine how Support management effect on financial performance of Bureau of Finance & economics Development. The summary of the discovered findings is shown in table.

Table 4.11: Support of management

Support management	N	mean	Std. Deviation
The internal audit activity prepares a five -year strategic plan based on provincial administration risk management strategies	65	2.15	1.107
The internal audit activity prepares an annual internal audit plan for the first year of the rolling five year strategic plan having regard to the current operations of respective and their strategic plans	65	1.88	.820
The internal audit implements the annual plan, as approved by the audit Committee, including any special assignments requested by respective departments' management	65	2.09	.631

Source: Research data (2019)

The respondents were consequently given statements to rate on a like scale. In light of the discoveries, the respondents concurred that the internal audit activity prepares a three-year strategic plan based on provincial administration risk management strategies the performance of Bureau of Finance &Development in Oromia state. By a 2.15mean anda 1.107standard deviation. The internal audit activity prepares an annual internal audit plan for the first year of the rolling three year strategic plan having regard to the current operations of respective and their strategic plans.

This was determined by a 1.88 mean and a 0.820standard deviation. Further examination demonstrated that the internal audit implements the annual plan, as approved by the audit Committee, including any special assignments requested by respective departments' management contributed alto*gether* too Support management on financial performance effectiveness Mean=2.09, standard deviation=0.631.

4.9 The summary of the discovered findings together for explanatory variables

The study wanted to determine how independence of summary of the discovered findings together for explanatory variables effect on financial performance of Bureau of Finance & economics Development. The summary of the discovered findings is shown in Table

Table 4.12 :The summary of the discovered findings for explanatory variables

Explanatory variable	N	Mean	Std. Deviation
Internal controls	65	1.89	.801
Independence of internal audit	65	2.14	1.261
Internal audit Standards	65	2.84	.894
Support of management	65	1.52	.533
Professional Competency	65	1.97	.553

Source: Research data (2019).

As indicated in table above internal audit standards is the most important contributes to internal audit‘s added value formal auditing standards recognize that internal auditors by mean by 2.84 and standard deviation 0.894 and the second most contributes to internal audit‘s added value is independence of internal audit with mean 2.14 and standard deviation by 1.261.The left of the others contributes mean and standard deviation their value respectively professional competency ,internal controls and support of management.

4.10.1 Regression analysis

The researcher additionally tested the relationship among the explanatory variable using multiple regression analysis. Spss was used by the researcher to code, enter and calculate the multiple regression measures for the study. Coefficient of determination is computed to explained the area to which the variations in the explained variables (financial performance) can be determined by the change in the five explanatory variables (internal audit Standards, independence of internal audit, Professional Competency, Support of Management and internal control .Regression Analysis yielded various values including R, R^2 ,F ratio, t-values and p-values. The R-value reflects the strength of the relationship between the variables while R^2 values show the area to which Variations in indicators are explained. F –value show the statistical significance of the overallmodel, while t-value represent the significance if individual variables. Further, beta values show the positive or negative effect of explanatory variables and explained variables. Finally, p-values represented the significance of model parameters. The study tested the relationships at 95 present confidence level (α=0.05) at which point a decision to confirm the relationship was made. Results that yielded p values < 0.05 led to significance relationship, while result with p values> 0.05 resulted in insignificance relationship.

4.10.2 Correlation analysis

The level of Association between the explanatory variables and explained variables was measured using the Pearson correlation. Coefficients for Pearson correlation range from -1 to +1. Negative correlation is assumed when the value is negative while a positive correlation is assumed when the value is positive. A correlation matrix is a table showing correlation coefficients between variables. Each cell in the table shows the correlation between two variables. A correlation matrix is used as a way to summarize data, as and input into a more advanced analysis, and as a diagnostic for advanced analyses.

Table 4.13: Correlation Matrix (Only independent variable)

		Internal Controls	Internal Audi Standards	Independence of Internal Audit	Support of Management	Professional Competency
Internal Controls	Pearson Correlation	1	.973**	-.465**	-.049	.021
	Sig. (2-tailed)		.000	.000	.701	.870
	N	65	65	65	65	65
Internal Audi Standards	Pearson Correlation	.973**	1	-.308*	.061	.116
	Sig. (2-tailed)	.000		.012	.630	.355
	N	65	65	65	65	65
Independence of Internal Audit	Pearson Correlation	-.465**	-.308*	1	.428**	-.039
	Sig. (2-tailed)	.000	.012		.000	.760
	N	65	65	65	65	65
Support of Management	Pearson Correlation	-.049	.061	.428**	1	.493**
	Sig. (2-tailed)	.701	.630	.000		.000
	N	65	65	65	65	65
Professional Competency	Pearson Correlation	.021	.116	-.039	.493**	1
	Sig. (2-tailed)	.870	.355	.760	.000	
	N	65	65	65	65	65

****. Correlation is significant at the 0.01 level (2-tailed).**
***. Correlation is significant at the 0.05 level (2-tailed).**

Source: Research, (2019)

In this section the correlation between financial performance and explanatory variables; Internal Controls, Professional Competency, Support of Management, Independence of internal audit and Internal Audit Standards have been presented and analyzed. A correlation matrix is used to ensure the correlation between explanatory variables.

According to Lewis-Beck (1993) suggestion in order to find out the multicollinearity problem, the bivariate correlations among the independent variables should be examined and the existence of correlation of about 0.8 or larger indicates a problem of multicollinearity.

The results in the above explanatory variable of internal audit Standards and internal control show that the strongest positive relationship. It is Related Pearson correlation coefficient was 0.973 and because $p>0.05$.Implied that the relationship is statically significant.Inaddition professional independence of internal audit and how internal controls that weak negative relationship. It is related Pearson correlation coefficient was -0.465 and also and support management and internal controls show that weak negative relationship. It is related Pearson correlation coefficient was -0.049. Professional competency and internal controls show that weak negative relationship. It is related Pearson coefficient was .021. Independence of internal audit and internal audit Standards show weak negative relationship.It is related Pearson correlation coefficient was -0.308.It is statically significant at 5 % level. Correlation matrix shows that the highest correlation is 0.973. This indicates there is few problem of multicollinearity in this study, However all are weak relationship except internal audit Standards and internal control show that the strongest positive relationship and Since there is 0.973 only among correlation above 0.8 in this study, therefore it can be concluded that there is few of problem of multicollinearity, as the results show that the problem of multicollinearity and the model is statically significance at level of 5% and 10%

4.10.3 Model summary

In order to determine how the mean of the explained variable changes with varying condition regression model was used. The focus of the regression analysis was on internal controls, professional competency, and support of management, independence of internal audit and internal audit standards and financial performance of Bureau of Finance &Economics Development.

Table 4.14: Model summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.842	.829	.337

a. Predictors: (Constant), Professional Competency, Internal Controls, Support of Management , Independence of Internal Audit, Internal Audi Standards

Source: Research, (2019)

From the findings in the above table the value of adjusted R squared (co-efficient of determination) was0.829an indication that there was variation of 82.9% on financial performance of Bureau of Financial and EconomicDevelopment due to changes in internal audit standard, independence of internal audit, internal professional competency, support of management and internal controls, at 95% confidence interval . This shows that 87% changes in financial performance of Bureau of Financial and Economic Development could be accounted for by changes in internal audit standards, independence of internal audit, professional competency, support of management and internal control. The study also established that there is strong positive relationship between financial performance of Bureau of Financial and Economic Development and internal audit, as shown by correlation coefficient of 0. 918.

Table4.15 :ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.709	5	7.142	62.975	.000[b]
	Residual	6.691	59	.113		
	Total	42.400	64			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Professional Competency, Internal Controls, Support of Management , Independence of Internal Audit, Internal Audit Standards

Source data Research (2019).

The model is statistically significance as reesented by a significance value of .001 which is less than 0.05. Thus the model can be used in predicting how internal audit standards, independence of Internal audit ,professional competency, support of management and internal controls effect on Financial performance of Bureau of Finance &Economics development in Oromia Region stste. The F critical value was 62.975at 5%level of significance implying that the overall model is significant. The coefficient results are as shown in table below.

Table 4.16 :Coefficientsresult

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.823	.258		10.956	.000
	Internal Controls	3.987	.425	3.923	9.378	.000
	Internal Audi Standards	3.670	.357	4.031	10.287	.000
	Independence of Internal Audit	.013	.060	.021	.222	.825
	Support of Management	.039	.080	.025	.487	.628
	Professional Competency	1.103	.097	.749	11.399	.000

a. Dependent Variable: Financial Performance

Source: Research, (2019)

To determine the relation between financial performance and explanatory variables multiple regression analysis was conducted. The result from the above tables led to the equation ($Y=\beta o+\beta_1x_1+\beta_2x_2+\beta_3x_3+ \beta_4x_4+\beta_5x_5+\acute{\varepsilon}$)

Becoming Y = 2.823+ 3.987IC +3.670IAS + 0.013IIA +0.039Sm + 1.1037PC

From the regression equation, the study revealed that holding internal audit standards, independence of internal audit, professional competency, support management and internal control to a constant zero financial performance of Bureau of Financial &Economic Development would stand at 2.823, and As increase in internal control would lead to increase in financial performance of Bureau of Finance & Economics Development in Oromia Region state by a factor of 3.987. As a unit increase in internal audit standard would lead to increase in financial performance of Bureau of Finance & Economics Development by a factor of 3.987. As unit increase in independence of internal audit would lead to increase in financial performance of Bureau of Finance & Economics Development by a factor of 0.013. As a unit increase in Support of Management would lead to increase in financial performance of Bureau of Finance & Economics Development in Oromia Region state by a factor of 0.039. As a unit increase in Professional Competency would lead to increase in financial performance of Bureau of Finance & Economics Development in OromiaRegion state by a factor of 1.1037.

At the 95% confidence level and 5%significance level, internal audit standard had level of significance was 0.001, independence of internal Audit level of significance was .825, Professional Competency level of significance of 0.001, support of management level of significance of .628and Internal Controls level of significance of 0.001. Ala explanatory variable are significant at 5%and 10% and implying that financial performance since significance less than 0.05 ($p<0.05$).. The othersindependence of internal audit andsupportof management were insignificant greater than o.o5($p>.05$) and statically significant at the 95% confidence leveland10%significance level.

4.10.4 Summary and interpretation of findings

From the findings the study revealed that there was greater variation in financial performance of Bureau of Finance & Economics Development of Oromia Region government state due to changes in internal audit standards, independence of internal audit, professional competency, support of management and internal control, this clearly shows that changes in financial performance of Bureau of Finance & Economics Development could be accounted by changes in internal audit standards, independence of internal audit, professional competency, support management and internal control.The study also established that there was positive a relationship between financial performance of Bureau of Finance & Economics developmentandinternal audit standards,independenceofinternalaudit,supportofmanagement and professional competencyestablished that there was strong positive a relationship.

The study found that a unit increase in internal audit standards,independence of internalaudit,supportofmanagement and professional competencywould lead to increase in financial performance of Bureau of Finance & Economics DevelopmentofOromia Region state.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The importance of internal audit is demonstrated in the growing demand for this service in all organizations and in the rapid growth of economies and society well its professional organization, the independence of independent of audit. However researchers have paid little attention to this function and the effect it has on financial performance of organizations.

The aim of this study was to establish if there is a relationship between internal audit and financial performance of Bureau of Finance & Economics Development in Oromia Region state. The source of information was primary data collected from a sample of 65 Employees of whose one respondent was picked from each Department such as department of auditing, fund and accountant. Quantitative and regression analysis were used to analyze data collected from each of employees in Organization.

From the analysis the study established that internal auditor and professional competence affects performance of Bureau of Finance & Economics Development in Oromia Region state to a great intent. This established that measures that can develop the efficiency of auditors are important for effective fraud detection, In Bureau of Finance & Development Economics of Oromia Region state frauds are identified by the internal audit function ,fraud detection, and fraudulent activities are naturally unpredictable and difficult to detect due to insufficient of train of audit soft wareand they affect the performance of the Bureau of Finance & Development Economics conscientiousness correlates with task performance just as strongly as cognitive ability, the study established the auditors in the organization are qualified to undertake audit function.

The study established the internal controls affect financial performance of Bureau of Finance & Development Economics in Oromia Region state to a great entent. The study also revealed that internal Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact, that intentional errors are concentrated in relatively few audits and these are fairly predictable by organization, others agreed that cash receipts bear fairly strong controls, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital, the greater the scale of competition, the greater would be the need to control costs as, and that intentional errors are concentrated in relatively few audits and these are fairly predict flagged or made difficult to transaction, that intentional errors are concentrated in relatively few audits and these are fairly predictable by organization, others agreed that cash receipts bear fairly strong controls, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital, the greater the scale of competition, the greater would be the need to control costs as, and that intentional errors are concentrated in relatively few audits and these are fairly predictable by trade .

The study established that internal audits standard affect the financial performance of Bureau of Finance& Economics Deployment in Oromia Region State to a great extent. The study also revealed that complying with professional standards is the most important contributor to internal audit‘s added value formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports, auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, Standards for audits and audit-related services influence the performance of Bureau of Finance& Economics Development, performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing, and finally that internal audit evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the finance.

By Organization that , an internal auditor must be independent of both the personnel and operational activities of an organization, the internal audit department in a finance must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, organization should have formalized principles of internal audit providing for its position and powers in the framework of the finance, independence is the essence of auditing, the integrity of the auditor‘s opinions, conclusions and recommendations would be suspect, internal auditors may not have a conflict of interests with the organization and finally that independence is necessary for the effective achievement of the function and objective of internal audit.

5.2 Conclusion

The study revealed that there was greater variation in financial performance of Finance &Economics Development due to changes in internal audit standards, independence of internal audit, professional competency, support management and internal control; this shows that changes in financial performance of Bureau of Finance &Economics Development could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control.The study also established that there was a strong positive relationship between financial performance of Finance &Economics Development and independence of internal audit,professionalcompetencyandinternalcontrol.Other there was a negative relationship with internal audit standards and support of management.

The study revealed that, independence of internal audit, professional competency and internal control had a positive relationshipandtheinternal audit standards and support of management had a negativerelationshipwith financial performance of Finance &Economics Development.

The study found that a unit increase in independence of internal audit,professionalcompetencyandinternalcontrolwould lead to increase in financial performance of Finance &Economics Development, as a unit increase in internal audit standardsand support of management would lead to decrease in financial performance of Finance &Economics Development.

The study found that measures that can improve the efficiency of auditors are important for effective fraud detection. The study concluded internal controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact due to insufficient auditor on audit software‘s Such as automation, fraud detection, audit exporting, data mining and network security. The study further concludes that an internal auditor must be independent of both the personnel and operational activities of an organization.

5.3.Policy Recommendations

There is need for the internal auditors to continuously update themselves with the changing times and technologies and sharpen their skills. By applying skills to the most critical points, building personal and professional credibility and recognizing and responding to the needs, internal auditors can become essential thus speeding good governance and improve efficiency of internal audit.

The management of Bureau of Finance &Economics Development should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

The director of the internal audit should be responsible to the management/board in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The management of Bureau of Finance &Economics Development should also obtain the latest ICT (Information and communications technology) audit software's Such as automation, fraud detection, audit exporting, data mining and network security. This would improve fast delivery of services and detection of frauds or any mischief in this field. Internal auditors should be fully trained on how to use the software's and fresher courses should also be increased in this regard. Frequent upgrading of the software's should be done to keep abreast with the changing technology and department to department audit software. Quality issues do not become isolated in one department but instead stretch across several departments.

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Appendix No.1

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING & FINANCE

Questioner prepared for research of the Effect of Internal audit on Financial Performance of Bureau of Finance &Economics of Oromia Region state.

Purpose of the Questioner

The purpose of this questioner is to collect data's for thesis work "The effect **of** internal audit on Financial Performance" a research to be conduct in partial fulfillment of Master of Science in Accounting and Finance. The questioner is to assess the effect of internal audit on Financial Performance**.**

The questioner has Six: section - one: general information about the demographic, section – two: question selected about professional competence, three section internal controls, fourth-section independence of internal audit, Fives-section internal audit standards and Six -Section support of management and generally question selected about the effect of internal audit on financial performance therefore you are kindly asked to indicate your level of agreement with each statement. I highly appreciate your participation and prompt response on this.

Appendix No.2

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING & FINANCE

DEAR FINANCE OFFICER/ACCOUNTANT/INTERNAL AUDIT, SIR,

Questionnaire to investigate the effect of internal audit on the financial performance of Bureau of Finance & Economics Development in Oromia Region state.

Confidentiality Statement: your responses will be confidential and we do not collect identifying information such as your name, email address. We will do our best to keep your information confidential. To help protect your confidentiality, the surveys will not contain information that will personally identify you. The results of this study will be used for scholarly purposes only.

Please, respond by ticking (√) in the appropriate box, the extent of which you strongly agree, agree, neutral, disagree and strongly disagree to the following questions.

1. SECTION ONE : DEMOGRAPHIC INFORMATION

Gender

Female [ ] Male [ ]

2. Indicate where you fall among the following age brackets (years)

Below 25 [ ] Above 53 [ ]

25-35 [ ]

35-45 [ ]

46-52[ ]

3. What occupation are you?

Internal Senior Auditor [ ]

Senior internal Auditor [ ]

Cluster Manager and Above [ ]

Other (Specify) [ ]

4. Level of education

Secondary Certificate [ ]

Diploma level [ ]

Bachelor's Degree Level [ ]

Masters Level [ ]

PHD [ ]

5. How long have you worked in the organization?

Less than 2 years [ ]

2-5 years [ ]

6-10 years [ ]

More than 10 years [ ]

SECTION TWO: PROFESSIONAL COMPETENCE

6. To what extent does professional competence of internal auditor affect financial performance of Finance & Economics Development in Oromia Region state?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

Noextent []

6.1 What is your level of agreement with the following statements that relate to professional competence of internal auditor and financial performance of Finance &Economics Development in Oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	1	2	3	4	5
Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the Bureau of Finance &Economics Development?					
In Bureau of Finance &Economics Development frauds are identified by the internal audit function?					
Measures that can improve the efficacy of auditors are important for effective fraud detection?					
Conscientiousness correlates with task performance just as strongly as cognitive ability?					
The auditors in organization are qualified to undertake audit function need train with latest audit's soft ware					

SECTION THREE: INTERNAL CONTROLS

To what extent do internal controls affect financial performance of Finance &Economics Development in Oromia Region government state?

Very great extent [ ]   Little extent [ ]

Great extent [ ]   No extent [ ]

Moderate extent [ ]

7.1 What is your level of agreement with the following statements that relate to internal controls and financial performance of Finance &Economics Development in oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4 disagree, strongly disagree)

Statement	1	2	3	4	5
Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact?					
Intentional errors are concentrated in relatively few audits and these are fairly predictable by Organization?					
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting due to lack of on audit software's Such as automation, fraud detection**,** audit exporting, data mining and network security?					
Cash receipts bear fairly strong controls?					
The greater the degree of competition, the greater would be the need to control costs?					

SECTION FOUR: INTERNAL AUDIT STANDARDS

7. To what extent does an internal audits standard affect the financial performance of Bureau of Finance & Economics Development in oromia Region government state?

Very great extent [ ] Little extent [ ]

Great extent [ ] No extent [ ]

Moderate extent [ ]

8.1 What is your level of agreement with the following statements that relate to internal audit standards and financial performance of Finance & Economics Development in Oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	1	2	3	4	5
Performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing?					
complying with professional standards is the most important contributor to internal audit's added value?					
Standards for audits and audit-related services influence the performance of Bureau of Finance &Development of Oromia state?					
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports?					
Auditors to carry out their role objectively and in compliance with accepted criteria for professional practice?					
Internal audit evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the financing?					

SECTION FIVE: INDEPENDENCE OF INTERNAL AUDIT

8. To what extent does independence of internal audit affect the financial performance of Finance & Economics Development in Oromia Region state?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

9.1 What is your level of agreement with the following statements that relate to independence of internal audit and financial performance of Finance & Economics Development in Oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	1		3	4	5
Independence is the essence of auditing?					
An internal auditor must be independent of both the personnel and operational activities of an organization?					
The integrity of the auditor‘s opinions, conclusions and recommendations would be suspect?					
Independence is necessary for the effective achievement of the function and objective of internal audit?					
The internal audit department in an organization must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes?					

SECTION SIX: NATURE AND SCOPE OF INTERNAL AUDIT

9. What is your level of agreement with the following statements that relate to nature and scope of internal audit and financial performance of Finance & Economics Development in oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	1	2	3	4	5
Does internal audit advise on whether risks are appropriately identified and managed?					
Does internal audit provide assurance that critical financial, managerial and operational information is complete, credible and timely?					

Please provide further comments on any of the above (10)

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SECTION SEVEN: SUPPORT MANAGEMENT

1. What is your level of agreement with the following statements that relate tosupportof management internal audit and financial performance of Finance & Economics development in oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	1	2	3	4	5
The internal audit activity prepares a five -year strategic plan based on provincial administration risk management strategies?					
The internal audit activity prepares an annual internal audit plan for the first year of the rolling three year strategic plan having regard to the current operations of respective de atmen’s and their strategic plans?					

The internal audit implements the annual plan, as approved by the audit Committee, including any special assignments requested by respective departments' management?					

10.1 What other management supports does the internal audit provide to the departments in building an effective and sustainable strategic plan?

___

SECTION EIGHT: OPPORTUNITIES AND CHALLENGES

11 What is your level of agreement with the following statements that relate to Opportunities and Challenges of internal audit and financial performance of Finance & Economics Development in Oromia Region government state? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement		2	3	4	5
Does the internal audit have sufficient (capacity) skilled and knowledgeable staff to implement the annual internal audit plan?					
Does internal audit activity have a strong support within departments?					
Do you think internal audit activity adds value to the overall management performance of the departments?					
Do you think internal audit activity adds value to the overall management performance of the departments?					
Does the internal audit activity exercise professional attitude and form an independent opinion when assessing control deficient censes?					
Does the departmental management provide support to internal audit activity during the implementation of annual internal audit plan?					

11.1 What do you think are the main challenges that the internal audit experiences?

11.2How will you describe the relationship between management of the departments and the audit committee?

1. Excellent
2. Very good
3. Good
4. Not Good
5. Not Sure

Comment on your choice in item 8

Thank you for taking time to complete this questioner.

Thank you!!