



**ADDIS ABABA UNIVERSITY
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**ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF
OROMIA SPECIAL ZONE IN FINFINE AREA**

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**January 2018
Addis Ababa, Ethiopia**

ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF OROMIA SPECIAL ZONE IN FINFINE AREA

**A Project Submitted to the Department of Accounting and
Finance in partial Fulfillment of the Requirements for the
Degree of Masters of Science in Accounting and Auditing.**

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**January 2018
Addis Ababa, Ethiopia**

Declaration

I have carried out independently a project on assessment of internal audit practices: A Case of Oromia Special Zone in Finfine Area in partial Fulfillment of the requirements of MSC Degree in accounting and auditing with constrictive guidance and support of the research advisor. This project is my own works that has not presented for any degree program in this and any other institution, and that all source of materials used for the project have been duly acknowledged.

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January 2018

Addis Ababa

Statement of Certification

This is to certify that Tadesse Debelle Galleshie has carried out a project on the topic entitled “ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF OROMIA SPECIAL ZONE IN FINFINE AREA” under my supervision. In my opinion, this project is suitable for submission in partial fulfillment of the requirement for the award of the MSC Degree in accounting and auditing.

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As members of approval board of Examiner we certify that we have read the project prepared by Tadesse Debelle Galleshie entitled “ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF OROMIA SPECIAL ZONE IN FINFINE AREA” and submitted in partial fulfillment of the requirements for MSC Degree in Accounting and Auditing complies with regulations of the university and meets the accepted standards with to originality and quality.

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Acronyms and Abbreviations

CAE:	Chief Audit Executive
CIA:	Certified internal auditor
COSO:	Committee of Sponsoring Organizations
GAO:	General Accounting office Auditors
IIA:	Institute of Internal Auditor
IAF:	Internal Audit function
IPPF:	International Professional Practices Framework
ISPPIA:	International Standards for Professional Practice of Internal Auditors
MoFED:	Ministry of finance and Economic Development
OAG:	Office of the Audit General

Abstract

The purpose of the study was to assess how internal audit practices are applied in the internal audit departments of selected public sectors in Oromia special Zone around Finfine. Accordingly internal audit quality, Independency, objectivity, Proficiency and Performance of the audit work has been taken as major parameters for comparison. 120 Questionnaires were distributed for population. Questionnaires were designed to measure the level of agreement of the respondents on the applicability of each parameter. The result shows competency in terms of educational level background and experience is in line with the standards. Though majority of the respondents are agreed that they are working as per internal auditing standards, a number of auditors agreed on the compliance. Auditors responded that there are inherent conflicts in reporting responsibilities and most of them agreed that there is no opportunities to undertake continuous professional development activities because there is no management part which prepare the chance rather than attached them with internal functional areas.

CHAPTER ONE

1. Introduction

This chapter introduces the research agenda of this study. This chapter outlines the background of the study, statement of the problem, research questions, research objectives, research significance, and definitions of terms and organization of the remaining chapters.

1.1. Backgrounds of the Study

Auditing has a significant role in the management of most organizations. It has become increasingly varied, both in scope and objective to assist all levels of management in assuring internal and external constituencies that financial resources are being properly managed and accounted for.

Internal auditing has undergone dramatic changes that have expanded its scope in a way that allows it to make greater contributions to the organization it serves. Internal auditing is also performed in diverse legal and cultural environments; within organizations that vary in purpose, size, and structure; and also by persons within or outside the organization. Furthermore, the internal auditing profession also walks a tightrope between serving as a management consultant and an independent professional (Committee of Sponsoring Organizations, 2009).

The need for auditing, either externally or internal is increasing from time to time because it enables organizations to manage their resources properly. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operation. It helps an organization accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies of risk management, control and governance processes (Jennifer, 1997).

When effectively functioned, internal audit (IA) play an important role in monitoring and evaluating financial management activities in government sectors, thereby helping an organization achieve its objectives. In addition, it assisted government organizations to achieve accountability and integrity, improve the implementation of government

programs and develop confidence among citizens and stakeholders as well as to cater any risk of mismanagement of public fund (Baharu-din *et al*, 2004). Organizations with effective IA activities are better able to identify business risks, take appropriate corrective action, and ultimately support continuous improvement. However, when internal auditing is poorly functioned, its ineffectiveness leads to increased non-value-added costs, poorly executed auditing systems, weak management operations, and eventual, company's quality management system breakdown. Addressing factors that affect the effectiveness of IA greatly help in locating where the problem is and thereby save the organization from such breakdown (Baharu-din *et al*, 2004).

Therefore, internal auditing always supports management in ensuring proper internal control system in practice and that the operations of the company are carried out effectively, efficiently and economically. In that regard the internal auditors who perform their job effectively may become expertise in the design and implementations of all other types of controls, i.e., the auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored or conflict of interest and lack of professional development (MoFED, 2004).

Based on the above premises this study assessed the internal audit practices in a case of Oromia Special Zone around Finfine.

1.2 Statement of the Problems

Commonly internal auditors are performed by employees of an organization functioning in a staff capacity and reporting to a high-level officer in that organization. It is an appraisal activity within an organization for the review of accounting, financial and other operation as a basis for service to management. The internal independent auditor may be able to relay largely on the internal auditor in determining whether the system of an internal check operating satisfactorily and assessing the general reliability of the accounting records.

In fact, high quality financial management led to the success of government

programs and activities. Therefore, to promote quality of financial management the government has established the internal audit unit in many government departments.

In Ethiopian internal audit was established by considering the virtue of issuance of Federal Treasury circular no 9/2004 (Betelhem Tesfaye, 2014).

This circular indicates that the provision of the establishment of internal audit unit and governing the tasks and responsibilities of internal auditing in the public sector and as an internal control mechanism in government agencies to look into the financial management integrity and value for money expenditure to the government program and activities.

Thus, mismanagement in the process of spending public money has been highlighted. Some of these weaknesses and mismanagement involve serious violation of established financial management guidelines and procedures such as poor planning of procurement, equipment supplied, work done and services rendered not in accordance with the original specification, cost overrun due to delays in project completion, improper payment made for equipment not supplied, work not done and services not rendered, equipment and good procured at a much higher cost than market value, procurement not done according to established regulations (Buang, 2008).

In fact, different changes and factors influenced the auditing practices, such as management support, the existence of adequate and competent internal audit staff, and the availability of approved internal audit charter, contribute for the internal audit effectiveness in the public sector significantly and positively (Enofe *et al*, 2014).

Despite, internal audit effectiveness played a significant role in ensuring effective management in public sector recent research on internal audit practices case of Ethiopian governmental higher educational institutions shows that lack of proper management commitment, lack of developmental programs for internal auditors and other organizational factors are critical factors influencing effectiveness of internal audit in the public universities (Mihret & Yismaw, 2007).

As mentioned on the above paragraphs, internal audit staffs are organized inefficiently with low technical staff proficiency that did not prepare a strategic plan to conduct their activities to produce effective internal audit output to their organization (Cohen & Sayag, 2010). Furthermore, recent research on internal audit effectiveness on an Ethiopian public sector case study by Mihret and Yismaw, (2007) shows that internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements, the study has also shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations.

In Ethiopia, different researchers are studied on the internal audit practices. For instance, some studies were done on internal audit practice in Ethiopia (Hailemariam, 2014) which is not deal with the quality assurance, planning and risk assessment and reporting follow-up, but only the study focused on the management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter, through the questionnaires administered without considering interview and document analysis. Mulugeta, (2008) was focused on the internal audit reporting relationship in Ethiopian public enterprises by ignoring the other factors that affect internal audit effectiveness. Lastly, Fekadu, (2009) present evidence on the internal audit practices in Ethiopian governmental higher educational institutions. But, as far as the researcher concern none of the previous studies has dealt with the internal audit practices in a case of Oromia Special Zone around Finfine.

Therefore, there is a gap in literature to assess the internal audit practices in a case of Oromia Special Zone around Finfine. In that regard, this research, therefore, intended to establish the internal audit practices in a case of Oromia Special Zone around Finfine.

1.3. Research Questions

1. What are the quality, independence and objectivity of internal audit practices in the Oromia special Zone Woredas and City administration sectorial offices ?

2. How does the proficiency and performance of audit work of internal audit in the Oromia special Zone Woredas and City administration sectorial offices?

Objectives of the study

1.4.1. General Objective

The broader objective of this research project is to examine the assessment of internal audit practice in Oromia Special Zone in Finfine area sectors.

1.4.2. Specific Objectives of the Study

Therefore, from the above general objective the researcher forwarded the following specific objectives:

1. To examine the quality of internal audit ,
2. To examine the independence of internal audit,
3. To assess the objectivity of internal audit ,
4. To examine proficiency and performance of audit work in the Oromia special Zone Woredas and City administration sectorial offices.

1.5. Significance of the Study

The findings of the study shaded light on the improvement in internal audit practice in Oromia Special Zone in Finfine Area and six cities administration can use the internal audit service most effectively and efficiently.

Besides, this research studied

- Enable the officials to see the strength and weakness of internal audit function;
- The finding of this study suggested the possible solution of internal auditing related problems that leads the organization to apply the proper internal auditing principle;

- Gives a way for other researchers who went to make further investigation in the area of audit practice and to conduct detailed researches on similar issues.

1.6. Scope of the Study

The scope of this study would be limited to Oromia Special Zone around Finfine, Woredas and six Cities administration because in those areas a lot of internal audit problems are reported regularly. Most of the reports which are found in the Woderas offices support this evidence.

As the title try to illustrate the study is concerned about the internal auditing practice in the specified study areas. The topic is chosen due to as far as the researcher believed such kinds of study never did in the area before.

Therefore, the research emphasized that how internal audit principles applicable in practice in the case of Oromia Special Zone around Finfine between July-June 2016/17. The period covered one fiscal year. It takes this duration because of getting resent information about the internal audit practice of those study areas. In addition to this, there were a lot of workers participated in the internal audit practice such as accountants, cashers, process owners, managers, end users and so on. However, because of the geographical disparity and the specific concern of the study topic, this study only considered the internal auditors, cashers, manager and process owners alone.

1.7 Limitation of the Study

As the study is cross-sectional in design, the possibility of recall biases resulting in under or over reporting and misreporting of events was likely. In addition, most of the information was questionnaire-based; so, questions that required a good memory were vulnerable to recall bias.

In spite of the researcher's efforts to gather the necessary information as objective as possible, the analysis of this study were based on the opinion of respondents, so the respondent may not cooperate well to fill and gave all the necessary data even if the validity and reliability minimize the problem some bias expected. This may in turn limit

the ability to make broader generalization from the study undergone.

1.8. Definitions of Terms

For the purposes of this research study, the following terms were utilized:

- **Internal Auditing:** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes **(IIA, 1999)**
- **Internal Auditing Practices:** Internal auditing practices refer to the compliance to Standards for the Professional Practice of Internal Auditing **(SPPIA, 2000)**, which is undertaken to represent the practice of internal auditing.
- **Scope of work:** The scope of work refers to relevant systems, records, personnel, and physical properties, including those under the control of third parties. *(Baharudin Z., Shokiyah, A & Ibrahim, M.S. .(2014).*
- **Managing the Internal Audit Department:** This refers to the responsibility of the CAE for properly managing the internal audit activity to ensure it adds value to the organization. *(Baharudin Z., Shokiyah, A & Ibrahim, M.S . . .(2014).*
- **Risk Assessment:** This refers to the uncertainty of an event occurring that could have an impact on the achievement of the company's objectives.
- **Control Environment:** Control environment refers to any action taken by the company to enhance risk management so as objectives and goals achieved.
- **Information and Communication:** Information is defined as the comprehensive internal financial data, operational and compliance data and external data that are related to decision-making. Communication refers to effective channels of communication to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and other relevant information.
- **Monitoring:** Monitoring refers to establishing a follow-up process and disposition of results by the CAE to ensure that management actions have been effectively implemented, or that senior management has accepted the risk of not taking action
- **Performance of Internal Audit Department:** Performance of internal audit

department refers to measurement of internal auditors capabilities towards the goals of the company and attainment of those goals.

1.9. Organization of the Study

In general the research paper consists four chapters. The first chapter tells about introduction of the study which includes back grounds of the study, statement of the problem, research questions, and objective of the study, significant of the study, scope of the study, limitation of the study, definition of terms and organization of the study. Chapter two reviews the literature. Chapter three is deles about the method of the study. Sources of data and variables narrated in this part. Methods of data analysis are also described in this chapter. Whereas, Chapter four discuss on the results and analysis followed by, conclusions and recommendations, and suggestions for further study in Chapter five.

CHAPTER TWO

2. LITERATURE REVIEW

In the previous chapter, the main problems and objectives to be addressed in the study have been stated. This chapter presents the review of related literature. The chapter is organized in three sections. The first section reviews theoretical studies on internal auditing practices while the second section presents the empirical evidence on internal auditing practices and related issues. The final section identifies the knowledge gap that has been addressed in the study.

2.1. Theoretical Review

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization (Sawyer, 1988). In other word, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to

evaluate and improve the effectiveness of risk management, control, and governance processes (Griffiths, 2006).

The concept of independence is fundamental. Internal auditing cannot survive if it is not objective. All definitions of internal audit feature an element of independence, although its extent, and how it is achieved. The audit function must have sufficient status and be able to stand back from the operation under review for it to be of use. If this is not achieved, then this forms a fundamental flaw in the audit service and some internal audit functions may not be able to subscribe to the standards (Pickett, 2005).

2.1.1. The Four Main Internal Audit Elements

The scope of internal auditing is found in the Institute of Internal Auditors' implementation standard which states that: the internal audit activity shall evaluate risk exposures relating to the organization's governance, operations and information systems regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations, and contracts.

2.1.2. The Audit Charter

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 management; 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 management. As indicated International Standards for Professional Practice of Internal Auditors (ISPPPIAS) attribute 1000– purpose, Authority, and responsibility requires that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics and the standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the management for approval (IIA's, 2012).

2.1.3 Audit Competencies

The first thing that needs to be in place to ensure competent internal auditors is effective human resource policies and practices. Here, anyone can concern the attributes of successful internal auditors. The International Internal Auditing (IIA) Practice Advisory deals with proficiency and requires that each internal auditor shall possess certain knowledge, skills, and other competencies (Pickett, 2005).

2.1.4 Quality Control in Auditing at International Level

Three components comprise the framework for assuring quality in auditing: standards, ethics, and internal and external quality reviews. This system encompasses the activities of the regulatory agencies, standard-setting and professional bodies associated with financial reporting and the audit of publicly listed organizations. The establishment of an appropriate oversight mechanism in auditing strongly contributes to increasing the credibility of the audit profession. Although it is necessary that supervision be undertaken in the first instance by the profession itself, the ultimate responsibility for ensuring that auditors carry out their tasks with due care and in full independence remains with the regulatory bodies. This issue is particularly important for independent auditors of public organizations (Soltani, 2007).

2.1.5 Main Challenges for Internal Audit

The main challenges in addition to broadening the skill base and extending the scope of the work programed to encompass all key business risks were to enhance the cost effectiveness and value added by the function. Risk-based auditing a further challenge gained greater acceptance from senior management and thereby be in a position to influence strategic thinking. This in turn shall enhance the reputation of the function and provide the opportunity for internal audit to become a greater source of future management talent for the business. The final challenge cited by a number of Directors was for Internal Audit to take a broader role in the Corporate Governance agenda (Griffiths, 2006).

2.1.6. Types of Audits

According to Ethiopian internal audit manual auditing can be mainly grouped into four types:-

- I. **Financial audit:** involves verification of financial data to express opinion on their validity and reliability
- II. **Compliance audit:** involves verifying adherence to policies, plans, procedures, laws and regulations
- III. **Value for money (performance) audit:** is a forward looking evaluation of operations to identify areas in which economy, efficiency and effectiveness (the three E's) may be improved or to evaluate compliance with and the adequacy of operational policies, plans and procedures. It involves evaluation of inputs, process and outputs. Other names used to describe this type of audit include Operational, Management and Three E audit.
- IV. **Environmental audit:** is an audit which confirms the degree of compliance with both internally and externally determined emission and pollution standards (**MoFED, 2005**).

2.1.7. The Role of Internal Audit

The role of internal audit has been transforming along with changes in its environment McNamee (1995) as cited by Mihret (2010) discuss three major phases of transformation in the history of internal audit (IA). Pre 1940s, IA was mainly focused on checking propriety of transaction and records. In the 1940s, the development of information economy based on the concept of systems caused the emergence of modern IA with a systems evaluation approach. In this phase, IA has been concerned with checking compliance with policies and procedures. Then, since the 1990s another wave of transformation led IA to be viewed as a value adding service with a broader scope of activities including assisting organizations in the management of risk.

Similarly, Spira and Page (2003) explain contemporary IA's shift in emphasis as a result

of pressures on organizations that caused changes in responsibilities of managements of directors, management and external auditors. Various corporate governance initiatives in the USA and the UK caused a change in the meaning of internal control to incorporate management of risk. For example, Committee of Sponsoring Organizations (COSO) framework's definition considers internal control as aiming to provide assurance regarding efficiency and effectiveness of operations, reliability of financial reports, and compliance with applicable laws and regulations (Committee of Sponsoring Organizations, 1992). Such changes created opportunities for IA to provide consulting services to management and assist managements of directors to manage risk.

2.1.8. International Internal Auditing Standards

According to the International Internal Auditing (IIA's), International Standards for the Professional Practice of Internal Auditing (Standards) revised (2012); 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 IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

If the Standards are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the Standards and other standards, internal auditors and the internal audit activity must conform to the Standards, and may conform with the other standards if they are more restrictive.

The purpose of the Standards is to:

- Delineate basic principles that represent the practice of internal auditing.
- Provide a framework for performing and promoting a broad range of value-added internal auditing.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organizational processes and operations.

The Standards are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements (IIA's 2012).

2.1.9. Internal Auditors Role in Organizational Governance

A basic definition of corporate governance is: "The system by which organizations are directed and controlled." In effect, it is concerned with systems, processes, controls, accountabilities and decision-making at the heart of and at the highest level of an organization. Corporate governance is about the way in which top managers execute their responsibilities and authority and how they account for that authority in relation to those that have entrusted them with assets and resources. In particular it is concerned with the need for openness, integrity and accountability in the decision-making processes of the organization.

Good corporate governance should provide proper incentives for the management and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring. So, internal auditing is one of the cornerstones for corporate governance, along with the management of directors, senior management, and external auditing.

Management often calls upon internal auditors to help provide them with assurance that

- a. Risks are effectively identified and monitored,
- b. Organizational processes are effectively controlled and
- c. Organizational processes are efficient or effective.

In other words, internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management's control practices. To strengthen this active role, internal auditors should report directly to the audit committee, not to senior management thereby ensuring audit committee's preeminent role in monitoring and reporting on the effectiveness of corporate governance.

Additionally, in the governance context, the key activity with respect to risk, the probability that an event or action, or inaction, may adversely affect the organization or activity under review, is monitoring all the subsidiary steps of identifying risk, assessing the potential effect of the risk on the organization, determining a strategy to address the risks, and then monitoring the environment for new risks as well as monitoring the existing risk strategy.

To do this effectively, an internal audit activity must have adequate resources, professionally staffed, and follow the internationally recognized framework for internal auditing. Besides, audit committee members must play an active role to ensure that it has enough resources to provide the appropriate level and quality of information and to support the independence of internal auditing. This independence that can be seen from the angles of:

Independence in mind. The stage of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing individuals to act with integrity and exercise objectivity and professional skepticism (Bethlehem, 2006); Independence in Appearance. The avoidance of facts and circumstances that a reasonable and informed third party having knowledge of all relevant information, including safeguards as applied would reasonably (Zemene, 2006).

Nevertheless, internal audit independence is increasingly being strengthened by the endorsement of regulators or statute. Internal auditing is thereby virtually mandatory in

central and local government, state financed agencies, banks, building societies and some other financial societies.

The support of professional internal auditor receives from his/her professional body is also important. The professional body is a watch dog over many of the factors which contribute to independence and a buttress against treats to that independence (Andrew, 1992).

However, during the past 50 years, organizations worldwide in the private, public service and voluntary sectors have established internal auditing functions to improve their monitoring activities. In the early days of its development most internal audit work related to internal accounting control and security over assets. Few internal auditors were involved in operating systems or the achievement of organization objectives and strategic issues at management or governing body level (Kenneth, 2007).

2.1.10 Enterprise Risk Management - Integrated Framework

In 2001, COSO initiated a project to develop a framework that would be readily usable by managements to evaluate and improve their organizations' enterprise risk management. The Internal Control- Integrated Framework continues to serves as the broadly accepted standard for satisfying those reporting requirements; however, in 2004 COSO published Enterprise Risk Management- Integrated Framework. COSO believes this framework expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management.

This enterprise risk management framework is still geared to achieving an entity's objectives categorized into strategic operations, reporting and compliance. Components of Enterprise Risk Management encompass the previous five components of the Internal Control-Integrated Framework while expanding the COSO model to meet the growing demand for risk management as indicated below:

Internal Environment: The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including

risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.

Objective Setting: Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

Event Identification: Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.

Risk Assessment: Risks are analyzed, considering likelihood and impact, as a basis for determining how they shall be managed. Risks are assessed on an inherent and a residual basis.

Risk Response: Management selects risk responses avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity's risk tolerances and risk appetite. Control activities, policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

Information and Communication: Relevant information is identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.

Monitoring: The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

In January 2009, COSO published its Guidance on Monitoring Internal Control Systems (COSO's Monitoring Guidance) to clarify the monitoring component of internal control.

COSO's Monitoring Guidance builds on two fundamental principles originally established in COSO's 2006 Guidance:

- ❖ Ongoing and/or separate evaluations enable management to determine whether the other components of internal control continue to function over time, and
- ❖ Internal control deficiencies are identified and communicated in a timely manner to those parties responsible for taking corrective action and to management and the management as appropriate.

The monitoring guidance further suggests that these principles are best achieved through monitoring that is based on three broad elements:

- ❖ Establishing a foundation for monitoring, including
 - a. a proper tone at the top;
 - b. an effective organizational structure that assigns monitoring roles to people with appropriate capabilities, objectivity and authority; and
 - c. a starting point or "baseline" of known effective internal control from which ongoing monitoring and separate evaluations can be implemented;
- ❖ Designing and executing monitoring procedures focused on persuasive information about the operation of key controls that address meaningful risks to organizational objectives; and
- ❖ Assessing and reporting results, which includes evaluating the severity of any identified deficiencies and reporting the monitoring results to the appropriate personnel and the management for timely action and follow-up if needed.

2.1.10.1. The Auditors Role in Managing Risk

Internal auditors play an important role in evaluating the effectiveness of control systems. Within the COSO ERM framework, the role of the auditor does not need to be limited to just auditing controls.

During audit engagements, internal auditors assess if control means are effective and adequate in order to mitigate the risk. Auditors not only provide assurance about these

controls, but also consult senior management for better improvement of these controls. Auditors may provide substantial aid to the management of the enterprise by identifying possible negative events that may negatively affect enterprise objectives, strategies or business models. Many analyses models may be used at this stage, but Strengths, Weaknesses, Opportunities, Threats (SWOT) model is probably the best known among them.

Usually negative events of environment come from political, legislative, technological and other environments. Risk in this case is defined as probability that negative event will occur. Internal auditors may assess risk, whereas risk usually has two dimensions: the likelihood and the impact. The likelihood is the probability that event will occur. In other word the impact is expressed by probable event on operations, financial statements and other matters. In this case internal auditors may provide adequate information for management decisions using statistical methods of risk assessment.

2.1.11. The Risk Assessment Process

Risk assessment is a continuous process requiring regular review as internal and external changes influence the company's strategies and objectives. The risk assessment process includes the identification of auditable units, the identification of relevant risk variables and an assessment of their relative significance.

Materiality

To determine the risk ranking criteria for materiality, the goal is to ensure that a simple and systematic method is developed for assigning the appropriate rank to the risk values. The materiality of an auditable unit reflects the associated inherent risk and may be determined by the following factors:

- Size
- Number of transactions
- Financial exposure
- Regulatory exposure
- Budget information

So, taking the above considerations into account and evaluate the values that are determined as insignificant are assigned a value of one (Low Risk); average a value of three (Medium Risk); and significant a value of five (High Risk).

Assessment at Last Audit

The significance of the issues noted at the time of the last audits is used to determine the risk ranking. This risk variable represents the results of the findings, i.e., issues, during the last audit performed on an auditable unit. While ranking the audit results, consideration shall be given for the severity of issue, repetitive findings and the indication of theft or fraud. To determine the rank, the following criteria are developed:

- Audits which had two or more “A” issues are assigned a five (High Risk);
- Four or more “B” issues are assigned a three (Medium Risk);
- And the auditable units with “C” issues or no audits are assigned a one (Low Risk).

Personnel and Management

This risk variable reflects the confidence in personnel and management of the auditable unit. Auditable units that are determined to have experienced management and personnel, low turnover and control awareness are valued a one (Low Risk). Consequently, the opposite situation will be valued at a five (High Risk), and varying degrees between the two will be valued accordingly.

Management Discretion

This variable may be used when the audit committee and/or management have requested that a certain auditable unit of high concern be reviewed or in their opinion, qualifies for a higher risk score. This may also be used by the Director of Internal Audit based on his knowledge of the auditable units.

Organizational Events

This can be defined as any event, which will significantly impact the perceived level of

risk to the auditable unit. The assessment can be accomplished through discussion or other forms of communication with management, which can include:

- Information Systems (e.g., new implementations or changes to current systems, etc.);
- Organizational/Operational/Technological developments;
- New legislation and regulations;
- Financial and Economic conditions;
- Rapid growth.

Therefore, auditable units with no changes equals a value of one; moderate changes, a value of three, and significant changes, a value of five

In general, risk based auditing involves the following stages:

1. **Policy formulation:** organizations are required to bring out clear-cut policy on adoption of risk based approach towards internal audit. Such a policy, approved by the management of directors, shall contain the method for risk and functions which shall be subject to risk based assessment.
2. **Conduct of Risk Based Audit:** Once the policy is in place, organization should draw up a roadmap for implementation of conduct of risk based audit. The roadmap shall outline the arrangements for developing the risk profile and the sources thereof, classification of the branch / function into low, medium and high risk and the periodicity of audit and the quantum of transaction testing. The risk profile prepare earlier shall be subject to periodical updating incorporating the findings of audit.
3. **Audit report preparation and follow-up:** Risk based internal audit findings are to be recorded in a specific format to enable the responsible persons to follow-up the findings in order to correct any deviations.
4. **Organizational aspects:** For implementation of the road map for risk based audit, there shall be a proper organizational set up, which may consist of a task force of senior officers. The task force shall identify the transitional and change management issues. The availability of skilled auditors/inspectors has to be assessed on ongoing basis.

Theoretically, the chief audit executive shall report functionally to the management or

audit committee and administratively to the chief executive officer of the organization and functional reporting line for the internal audit function is the ultimate source of independence and authority (Rolandas, 2005).

Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the Chief Audit Executive(CAE) on the results of the internal audit activities or other matters that the CAE determines are necessary, private meeting with the CAE without management present, approve all decisions regarding the appointment or the removal of the CAE, approve the annual compensation and salary adjustment of the CAE, and make appropriate inquiries of the management and the CAE to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility.

On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day to day operation of the internal audit function typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures (Irvin, 2002).

2.1.12. Internal Audit Reporting Structure

Theoretically, the chief audit executive shall report functionally to the management or audit committee and administratively to the chief executive officer of the organization and functional reporting line for the internal audit function is the ultimate source of independence and authority (Rupsys, 2005).

Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, private meeting with the CAE without management present, approve all decisions regarding the appointment or the removal of the CAE, approve the annual compensation and salary adjustment of the CAE,

and make appropriate inquiries of the management and the CAE to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility. On the other hand, administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operation of the internal audit function typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures (Gleim, 2002).

2.2. The Development of Internal Audit in Ethiopia

According to Ethiopian internal audit manual, auditing is process by which a competent, independent person, accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. Besides recent research shows that internal audit (IA) effectiveness does play a role in ensuring effective management in public sector (Enofe, 2013).

Moreover, internal audit is considered as a value adding activity in contemporary organizations (AlTwaijry, Brierley & Gwilliam 2003; Bou-Raad 2000; Roth 2002; Yee, 2008). Its function has a positive effect on the quality of financial reporting, on good government governance, and quality of financial reporting has a positive effect on government's good governance (Rahmatika, 2014). Even if, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Arena and Azzone (2009) also noted that internal audit practice effectiveness is a function of resources and competency of the internal audit team, process and activity and organizational link of the function.

An internal auditing practice has existed for quite a long time in Ethiopia. Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987. Proclamation No. 13/1987 not only reemphasized the importance of the internal audit function in government departments and public enterprises. It also empowered the Office of Auditor General in three aspects

of whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained. 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 Minister of Finance to develop and maintain appropriate standards of work.

Internal audit as a separate function also appeared in this period (in 1987) when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises (Argaw, 2000). This proclamation also gave the auditor general the authority to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations.

The Ethiopian government has also been providing enhanced support to the development of internal audit since 1994 (Teklegiorgis, 2000). In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFED) has been mandated to develop a manual for internal audit in government organizations. Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia's (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s.

2.3. Empirical Results

This section presents reviews of the empirical studies on the internal audit practices in public government sectors. The second part of this chapter has addressed and examined comparatively empirical evidence from different public sector internal audit practices in countries such as Philippine, Saudi Arabia, Sudan, Ghana, Malaysia, Kenya and Ethiopian represents developing countries whereas New Zealand, USA and Australia represents

developed countries. This review is arranged through team based literature review rather than chronological based (Kaldir Has an Odowa,2015).

Internal audit effectiveness does play a role in ensuring effective management in public sector (Enofe et al., 2013), internal audit is considered as a value adding activity in contemporary organizations (Al-Twajjry, Brierley & Gwilliam 2003; Bou-Raad 2000; Roth 2002; Yee et al. 2008). Internal audit function has a positive effect on the quality of financial reporting, on good government governance, and on good government governance (Rahmatika, 2013).

2.3.1. Internal audit Independency

As Junio-Sabio, (2013) studied on the state of internal audit practice in selected Philippine government agencies basis for policy advocacy. In this study, the respondents of this research were basically the heads of internal auditing units of various government agencies. Hence, the researcher made use of the descriptive survey method of research. From the association of government internal auditors (AGIA) there were forty-four (44) internal auditing units (IAU) from national government agencies (NGAs). Government owned and controlled corporations (GOCC), legislative bodies, constitutional commissions and judicial service, applying the Slovene's formula in getting the sample size the researcher generated a total of forty (40) respondents. The study revealed that the current state of internal audit practice in the Philippine bureaucracy is characterized by often performing the essential internal auditor roles. Specifically, the practice includes the usual compliance with the IIA attribute standards.

In addition, Alzeban and Sawan, (2013) noted that some other reasons for the challenge to the independence of internal audit emerged as being the relationship between auditees and auditors. Onumah and Krah, (2012) argued that the effectiveness of internal audit in the Ghanaian public sector is hampered by several factors such as lack of budget authority of the internal audit units and weak functioning of audit committees, among others.

A study in Malaysia by Ali et al, (2012) looked at internal audit in the state and local governments of Malaysia was found that the internal audit function in the public sector

in Malaysia is curtailed by inadequate support from top management while, the auditors seldom extend their full cooperation. Additionally, Ali et al. (2012) indicated that in many organizations, the non-audit personnel and top management are generally unsupportive of internal audit.

1. Internal audit objectivity

Objectivity is seen as an important attribute to the quality of internal audit function (IA, 2000; Bethea, 1992; Traver, 1991; Farbo, 1985; Clark et al., 1980; Glazer and Jaenicke, 1980). If internal auditors are not objective, they are of little value to those who demand their service (Clark et al., 1980; Elliot and Willingham, 1980; Ward and Robertson, 1980; Williams, 1978). The internal audit department must be granted the license to carry out its responsibilities freely and objectively and also their judgments reached must be unbiased. Most internal audit professionals argue that an effective internal audit function unequivocally correlates with an organization's success in meeting management objectives and whether the internal control system is functioning as intended. Faudziah ha , ha, mu. (2005)

2. Internal audit proficiency and scope

The role of internal audit function in the public sector context in Saudi Arabia studied by Alzeban and Sawan, (2013) founded through archival and documentary analysis, supported by 29 semi-structured interviews data collection method and reported that internal audit suffers from a lack of support from top management. Likewise, Brierley *et al*, (2001) Assessed study on the problems of establishing internal audit in the Sudanese public sector, through interview and direct observation research methods and revealed that there is a lack of cooperation and coordination between the various parties responsible for internal audit in the public sector.

Likewise, The title on barriers and catalysts to effective internal audit in the Ghanaian public sector Study conducted by **Onumah and Krah**, (2012), This study collected the data from 120 internal auditors in 40 ministries, departments and agencies (MDAs) through a self-administered questionnaire, and semi-structured interview with a senior manager of the Internal Audit Agency. The study revealed that the effectiveness of

internal audit in the Ghanaian public sector is hampered by lack of management ownership and support for internal audit activities. Moreover, **Alzeban and Sawan**, (2013) observed that even when the internal audit was located at a relatively senior managerial level, it might still be subject to pressure from more highly placed management. Simultaneously, top level managers control organizational resources which they may withhold to prevent an in-depth investigation by internal auditors of a matter which they do not want to be probed.

3. Internal Audit quality

According to ISPPA 1300, this program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The responses were asked to level their agreement about the availability of quality assurance (Hamdu Ke, 2014)

4. performance of audit work

Performance standard states the nature of internal audit service and provide quality criteria intended to measure audit service. The internal auditing focus on specific organization performing certain control function, procedures, rules and regulations set up to ensure the most economic efficiency and effective use of resource (Diamond, 2002).

In fact goal of any firms were a challenge that led to the implementation of an effective strategy, which linked the organization's mission, vision, and strategic goals to help them achieve their firm's goals. As the firm to create opportunities through business procedures lead to continuously maximize their profitability, market share and competitiveness in the long-term (Mohamed, 2008).

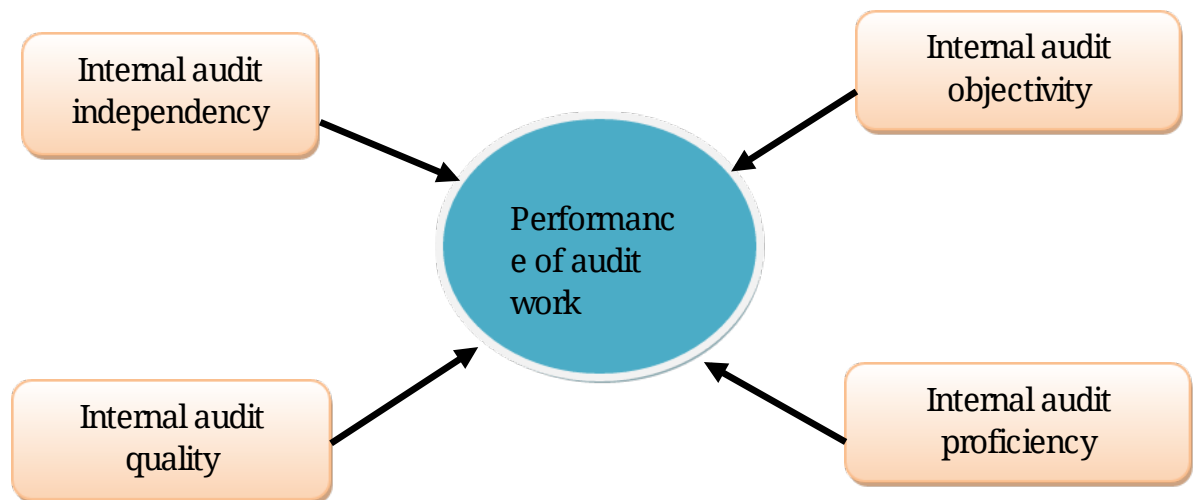
2.4. Conceptual Framework

Conceptual framework is a scheme of variables which the study operationalizes in order to achieve the set objectives. A variable being the measurable characteristic that assumes different values among the subjects, independent variables are the ones that

the study manipulates in order to determine their effects on another variable. The dependent variable attempts to indicate the total influence arising from the effects of the independent variables (Mugenda & Mugenda, 2003).

Independent variable, according to Mugenda & Mugenda (2003) is the presumed cause of changes in the values of the dependent variable; the dependent variable is expected to be influenced by the independent variable. The independent variables in this study are internal audit independence, quality, objectivity and proficiency and scope how they affect organizational performance of Oromia Special Zone around Finfine.

In fact, this study focuses on internal auditing practices a case of Oromia Special Zone around Finfine. The theoretical framework is as shown in the figure below. The model is proposed based on the postulate in various literatures. Sherer and Kent (1983) perceived internal auditing to be “a bonding cost borne by the senior manager to satisfy the demands for accountability made by external participants especially shareholders”. Not internal audit professionals argue that an effective audit function will correlate with an organization’s success in meeting management objectives and whether the internal control system is functioning as intended.



CHAPTER THREE

3. Research Methods

This chapter reports the research method which is a systematic way of accomplish the research objectives or to solve the research problem. The chapter is structured as follows: the first section research design, the second section elaborate about the sampling design, the third section represents research data collection tools and instrument and the final section told about method of data analysis.

3.1. Research Design

Basically the research design can be categorized into descriptive and analytical. Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. In social science and business research we quite often use the term *Ex post facto research* for descriptive research studies. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening. Most *ex post facto research* projects are used for descriptive studies in which the researcher seeks to measure such items as, for example, frequency of shopping, preferences of people, or similar data. *Ex post facto studies* also include attempts by researchers to discover causes even when they cannot control the variables. The methods of research utilized in descriptive research are survey methods of all kinds, including comparative and correlational methods. In *analytical research*, on the other hand, the researcher has to use facts or information already available, and analyze these to make a critical evaluation of the material (Khotari, 2004).

Therefore, In order to examine the internal audit practice in Oromia Special Zone around Finfine, descriptive research design is applied; because for the data collection purpose the researcher use structured questionnaire. Sample is also selected from the population by statistical techniques to infer for the population. To reduce the response error supervision was done by the researcher. And moreover, before the data was analyzed all

editing activities, like coding, tabulating and performing several statistical computations, done.

From the point of view of time, the study is also used cross sectional study design. Thus, the survey method gathers data from a relatively large number of cases at a particular time; it is essentially cross-sectional.

Furthermore, research strategies help researchers to provide data that can answer the research questions or achieve the research objectives. There are many types of research strategies, depending on the types of data that the researcher want to collect and analyze, such as experiment, survey, case study, action research and grounded theory. However, this study employed survey strategy because there is a wide scope of competencies to be evaluated in this research, so survey strategic questionnaire would enable more expedient data collection. This would then determine a shorter interaction time, which in turn is aimed at attracting a wider sample group.

In order to achieve the objectives of this study and thereby to give answer for its problems, mixed research approach was used by the researcher. That is, this study used both quantitative and qualitative research approach. The quantitative data collected from internal auditors. By using a structured questioner this data can be collected. However, to triangulate the auditors' response with the key participants, the researcher also used qualitative research approach. In the qualitative method the researcher prepare checklist and interviewed the selected process owners, managers and cashers. There are compelling reasons why the researcher opted to use mixed methods. The adoption of positivist paradigm entails that measurement remains an essential element since its basic assumption is social phenomenon or qualitative data can be measured. This quantitative method was supplemented by a qualitative method to complement/validate information gathered from the quantitative survey, to gain deeper insights on the issue, to significantly strengthen the analyses and thus enhance confidence in the conclusions.

3.2. Samples and Sampling Procedures

3.2.1. Target Population

All officials those are working in the area of accounting, finance and managements in Oromia special Zone around Finfine, six Woredas and Cities administrations such as Sebeta, Gelan, Dukem, Lega-Tafo, Sululta, Holota and Burayu are considered as the study population. However, the target population of the study ware all internal auditors, cashers, managers and process owners those are engaged in the study areas for the selected sectors. And the final study unites the selected internal auditors cashers, manager and process owners.

3.2.2. Sample Size Determination

Sampling is the process or technique of selecting a suitable sample for the purpose of determining parameters or characteristics of the whole population. Regarding to this, **Paula *et al* (2001)** noted that, sampling refers to drawing a section which is a subset of elements from a population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately measuring opinions and characteristics of a population. The usual goal in sampling is to produce a representative section from the population. A perfect representative sample is a mirror image of the population from which it selected.

This study employed both census and purposive sampling techniques in order to select the required size. Primarily, purposively select 3 cashers and 3 process owners out of 14 populations for each and 2 managers out of 6. This selection was done based on the respondent knowledge and working experience associated with the study subject. Then the qualitative information collected from them.

The second selection system of this study was census. Sometimes, emplace of selecting a sample from the population, due to some reason the researchers supposing to take the entire population for the study. For instance, this study employed census technique to select the internal auditors, because the study units are not that much more. That is, after the selection of the study area purposively, the entire internal auditors those are working in the indicated sectors were include in this study. According to Oromia Special

Zone around Finfine three year progress report (EFY 2008- EFY2009), the Zone has 7 cities administration and 6 Woredas (districts) that is under the Zone and internal auditing department staffs so that the study population were the total internal audit staffs in the zone, and that were population eligible for the study. Therefore, the individual who fills the questionnaires were those internal auditors engaged in the Oromia Special Zone around Finfine 7 city administrations of Sabeta, Burayuu, Galan, Dukam, Legatafo, Sululta & Holota; 6 Woredas, Sabata Hawas, Hakak, Sandafa Bakke, Mulo and Walmera; and one Special Zone Internal Audit staff. That is, a total of 120 internal auditors were included in the study. The below table (Table3.1) elaborated more about the selected respondent:

Table3.1 Summary of sample size determination

Departments		Total participants
City Administration	Sabeta	10
	Burayuu	10
	Galan	8
	Dukam	8
	Legatafo	8
	Holeta	4
	sululta	4
Woredas	Sabata Hawas	10
	Hakak	10
	Sandafa Bakke	10
	Sululta	10
	Mulo	9
	Wolmara	10
Special Zone	Oromia Special Zone	9
Total		120

3.3 Data Collection Tools

The study was investigated internal audit practice in Oromia special zone around Finfine government public sector offices. The study used primary sources of data. The primary sources of data obtained from closed ended self-administrated and unstructured interviewing questionnaires. The structured questioners were field by internal audits;

whereas, the checklist inquires prepared for the financial control support process owners and cashers of the respective government public sector offices. The questionnaires adopted and modified were from the researcher. In other word the administered questionnaire distributed on the selected internal auditors. The key informant interview which was made for qualitative data enabled the researcher to capture and ascertain both subjective and objective facts. Thus, face to face interview that helps to get quantitative data is important in order to increase probability of response rate and flexibility in extracting more qualitative information. In the other way direction, the secondary source of information which helps to develop a literature review was obtained from documents, reports, journals, proceedings, bulletins, Internet, periodicals, various books and other relevant materials.

B. Questionnaire

In this study questionnaire design developed from a wide review of the literature by academics to improve and meet the possible scale of measures; which all constructs with multiple-item scales, all are divided into two parts. Part one asks for general internal audit executive such as gender, age, education, etc. Part two of the feedback information about best internal audit practices as well as the antecedents. Basically, the researcher prepares and distributed a structured questionnaire to obtain the required quantitative data from the entire internal auditors. The questioners designed based on the societal original language Afan Oromo. Then it translated into English. It has

For the data collection process, professional data collectors those have well data collection experience were participated one for each Woredas, city administration and special zone. Before the data collection procedures began, the researcher gave training for the enumerators for three days. The development of the questionnaires involved the following steps: compiling a list of topics to be canvassed in the survey; discussing these topics with pertinent stakeholders such as the officials of internal auditors, chasers and process owners; and preparing a first and revised draft of the structured questions and the response formats. The need to maximize the validity of results remained an important facet of the study design.

C. Key informant

Quantitative data was collected using key informants. The interviews were tape recorded. The Key informant was designed to gather data and insight directly from knowledgeable people the information of which cannot be obtained with other methods like questioner. For the interviews, the researcher selected 6 officials from the study areas with the concerned officials such as cashers and process owners. This is because those officials have well knowledge and experience for the issue that the researcher issued. According to the responses of these official interviews the severest problems are concerned with a shortage of audit staff and staff lacking in audit competencies.

3.4 Validity and Reliability

In order to reducing the possibility of getting higher errors attention is given. Hence, reliability and validity tests, which help to detect the presence or absence of those errors, are taken place to reduce the problems. So, for doing all those acceptable reliability and validity testes, the researcher was done piloting with 20 respondents after drafting the questionnaire.

3.4.1 Validity

Validity is the ability of an instrument to measure what it is supposed. A data-collecting instrument is considered valid if it is free from both systematic and random error. In this research, a direct contact made with the respondents in connection with the measurement of the scale (personal interviews). It is also the extent to which collection methods accurately measure what they were intended to measure and concerned whether the findings are really about what they appear to be about. Thus, the questionnaire is carefully designed. It was also reviewed, commented upon, modified, and finally approved by the advisor and experts who have experience with in the research area.

3.4.2 Reliability

Reliability is concerned whether the procedures of data collection and analysis was generating the same results on other occasions or are other observers make similar observations and arrive at conclusions from the raw data.

In order to measure the consistency of the questionnaire and the overall reliability of constructs that it is measuring, the reliability test carried out based on Cronbach's Alpha coefficient. Cronbach's Alpha can be interpreted as like a correlation coefficient.

Table 3.2. Reliability Test

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
0.884	0.728	26

3.5. Method of Data Analysis

After data was collected, data processing is carried out. The raw data is converted into suitable form for analysis and interpretation. This achieved through sequences of activities including editing, coding, entry, and tabulation. The objectives are to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Statistical analysis carried out using Statistical Package for Social Science (SPSS, v.20).

In the study is employee both quantitative and quantitative analysis method. The qualitative data was analyzed based on the transcripts of taped interviews, from Afan Oromo to English, classified and interpreted in a narrative form.

The methods that have been used for the quantitative analysis were descriptive statistics; such as average, frequency, percentages etc. which helps to show the distribution of variables what looks like. In other way direction, the inferential statistics such as multivariate analysis is also applied. Under the multivariate analysis, this study applied

multiple regression model which relies on results from the association between the dependent variable in the study, on the one hand, and their associates, on the others. The multivariate analysis was based on the theoretical framework presented above and used linear regression models. The regression model is used when the dependent variable is continuous. Ordinary Least Square Estimator (OLS) method was held for the minimization of error. So, their general mathematical model looks like:

$$Y_i = \alpha + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \beta_4 x_{4i} + \varepsilon_i$$

Where the variables are defined as:

Y_i = Performance of audit work (dependent variable)

α = Constant term

β_i = Coefficients

x_{1i} = Internal audit independency

x_{2i} = Internal audit quality

x_{3i} = Internal audit objectivity

x_{4i} = Internal audit proficiency

ε_i = Error term

Under the assumptions of:

- $\varepsilon_j \sim N(0, 1)$ mean zero and variance 1
- Linear relationship between outcomes (y) and explanatory variable x
- Outcome variable (y) should be Normally distributed for each value of explanatory variable (x)
- Standard deviation of y should be approximately the same for each value of x
- Fixed independent observations
- The observations (explanatory variables) should be independent

3.6 Ethical Consideration

The research addresses all relevant ethical considerations such as the issues of privacy and transparency. Primarily, Addis Ababa University has issued a formal letter of cooperation for the concerned study area. Then, permission is obtained by the Oromia

special Zone around Finfine, six Woredas and Cities administrations. Then data collection is carried out after receiving ethical clearance letters from the authority.

Despite the sensitivity of some questions, participants were encouraged to speak freely about the topics but not compelled to respond. Privacy is guaranteed in the sense that the participants remain anonymous. In the interview, participants requested to keep the shared experiences confidential. Informed verbal consent is obtained from each study subjects prior to data collection.

CHAPTER FOUR

4. Data Presentation, Interpretation and Analysis

4.1. Introduction

Under this chapter, the data collected through proposed methods and tools as discussed in the above chapters are analyzed carefully so as to examine the internal audit practice in Oromia Special Zone around Finfine. In order to examine the internal audit practice, the influence of the variables designed for each factor has been quantified with likert scale questions with the perception level ranging from 1 to 5. Statistical tools such as mean, standard deviations and linear regression have been used for analyzing and interpreting the data. To get preliminary outlook of internal audit practice of Oromia Special Zone around Finfine, the researcher use the descriptive statistics then follow run a regression

model for the selection of important and significant factors.

4.2. Response Rate

The researcher expected to collect 120 data from the internal auditors which the questionnaires were distributed across the seven city administrations, six Woredas and one special zone. However, 117 (97.50%) of the questionnaires were completed and retrieved successfully, i.e., there is a 2.5 % non-response rate. For more elaboration, out of the total 4 respondents those came from Holeta only 3 (75.0%) of them responded the question and return the questionnaires, likewise out of the 9 Mulo's respondents only 7 (77.8%) of them returned the questionnaires after they file properly. The below table illustrated more about the expected and observed study participants of internal auditors who involved in the selected study areas (Table 4.1).

Table 4.1. Observed and expected samples taking from the study areas

Departments		Total participants	Valid respondent s	% change
City Administration	Sabeta	10	10	100.00
	Burayuu	10	10	100.00
	Galan	8	8	100.00
	Dukam	8	8	100.00
	Legatafo	8	8	100.00
	Holeta	4	3	75.00
	Sululta	4	4	100.00
Woredas	Sabata Hawas	10	10	100.00
	Hakak	10	10	100.00
	Sandafa Bakke	10	10	100.00
	Sululta	10	10	100.00

	Mulo		9	7	77.780
	Wolmara		10	10	100.00
Special Zone	Oromia	Special	9	9	100.00
Total			120	117	97.500

4.3. General Information about the Respondents

Regarding sex distribution of the respondents, 92 (78.6%) of the participants were males whilst the remaining 25 (21.4 %) were females. As the result illustrated male internal auditors are around three times more than that of the female employees. So, this implies that there is a sex difference in the audit departments of the study areas; i.e., most of the internal auditors who are working in the Oromia Special Zone around Finfine are males (Fig4a).

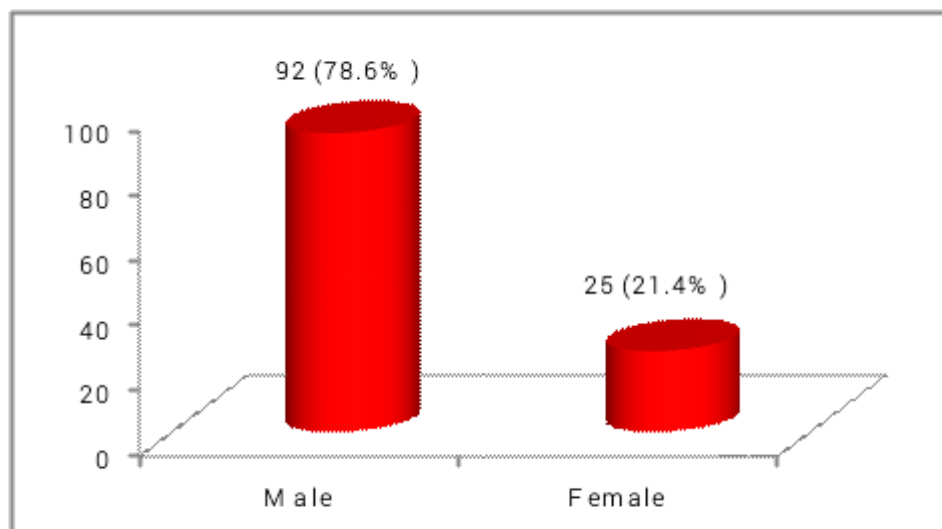


Figure 4a . Sex distribution of the study participants

As can be observed from the table below, on the average every respondent's had got 34 (SD±7.11) years of age. The minimum respondent age was 23, while the maximum aged respondent celebrated the 56th birth of years. In the other word the majority of the internal auditors are adults; this indicated that they have a better experience on the auditing work.

Table 4.2. Average age distribution of the study participants

	Mea n	Std. Diviation	Minimum	Maximu m
Age of the respondents	34.29	7.11	23	56

From the below information out of the entire study participants 94 (80.3%) of them were BA holder in accountant. Likewise, 16 (13.7%) of the respondents were first degree holders with other fields rather than accounting some had management, economics etc. There are 6 (5.1%) respondents who had MSc and above degree in accounting, whereas, 1 (0.9%) respondent had a diploma. This implies that most of the work is leaded by professionals, but, still overwhelming internal auditors were not accountant. Because of they are experienced, all respondents were expected to understand the questionnaire and respond correctly (Fig4b...).

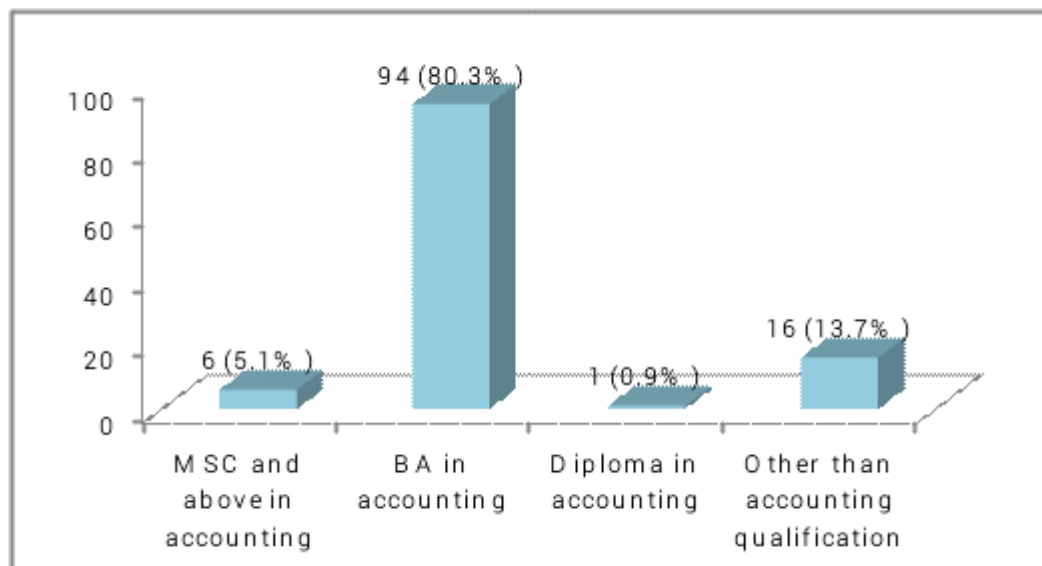


Figure 4b...: Educational background of the respondent

The study further requested about the respondents work experience how many years are they engaged in the sector offices as internal auditor. According to the findings which is denoted in the below table, on the average every of them had around 8 (SD±5.26) years of work experience. The minimum expanded employee was working in the past one year, whilst, the maximum experienced participant had a 28 years of experience. This indicated that almost all of the study participants had a better knowledge about the sectors and can give a good response about the raised questions.

Table 4.3 Average work experience of the study participants

	Mea n	Std. Diviation	Minimum	Maximu m
Age of the respondents	7.56	5.26	1	28

4.4. Internal Audit Quality

Internal audit is considered as one of the factor which capable to affect the performance of audit works. High mean score which is above a median threshold (3) indicate the positive effect and low mean score indicates the negative effect for the performance of

the internal audit work. The study raised seven items of inquires for the internal auditor to evaluate the quality of the internal audit of the sector. All of the items average perception level as per the evaluator higher than 3, which is above the median threshold. This implies that as the majority of the study participants' opinion, the sector internal audit quality is improved.

Here every item was explored further with relation to internal audit related indicators. The indicators were given and the respondent asked to pick a likert-scale inquires ranging from one represent 'strongly disagree' to five represent 'strongly agree'. Hence, the majority of the respondents convinced that in their sector the purpose and authority of internal audit is clearly defined in charter. In fact, about 62 (53.0%) study participants agreed with this expression, similarly, 30(25.6%) respondents strongly support this argument. However, 15 (12.8 %) other respondents disagreed with the above respondent opinion. The reaming 10 (8.5 %) of the respondents quit to say any, i.e., neither they agreed nor disagreed. This indicated that the purpose of internal audit was defined in the sectors.

Moreover, the respondent response revealed that the most of the participants agreed that the internal audit activities comply with the IIA's standards and authority of internal audit is in line with standards for the professional practice formulated by IIA. Therefore, Organizational policy authorizing internal audit is in line with standard formulated by IIA. Similarly, According to ISPPIA attribute standards no.1000 requires the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of internal auditing, the code of ethics, and the standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. This is in line with research conducted by Junio-Sabio, (2013). Furthermore, finance process owners and cashers in Oromia special zone around Finance and economy cooperation sector offices were asked during the interview internal audit activities and authority comply with the IIA's standards and they responded that it is comply with the IIA's standards.

Regarding the item which is stated "there were inherent conflicts in reporting

responsibilities when internal auditors report to the audit committee or to various levels of management,” 73 (57.3%) 1 respondents were agreed, likewise, 4 (12%) respondents strongly agreed with this expression. But 14(12%) respondents disagreed with the above argument, whereas, the remaining 16(13.7 %) respondents neither agreed nor disagreed with the given argument. This result indicates that inherent conflicts in internal auditors report are high (Table4.4).

Table4.4. Items of Internal audit quality in the case of Oromia Special Zone

Quality items	Strongly disagree	Disagree	Neutral	Agree	strongly agree	N	Mean	St, deviation
The organization led by audit charter.	1 (0.9%)	15 (12.8%)	9 (7.7%)	67 (57.3%)	25 (21.4%)	117	3.85	0.931
The purpose and authority of internal audit is clearly defined in charter.	0 (0.0%)	15 (12.8%)	10 (8.5%)	62 (53.0%)	30 (25.6%)	117	3.91	0.925
Internal audit charter is maintained (available) in my office /sector.	1 (0.9%)	21 (17.9%)	14 (12.0%)	56 (47.9%)	25 (21.4%)	117	3.71	1.026
The internal audit activity complies with the Institute of Internal Auditor's (IIA) Standards.	1 (0.9%)	16 (13.7%)	9 (7.7%)	62 (53.0%)	29 (24.8%)	117	3.87	0.970
The authority of internal audit is in line with standards for the professional practice formulated by the institute of internal auditors.	1 (0.9%)	17 (14.5%)	16 (13.7%)	63 (53.8%)	20 (17.1%)	117	3.72	0.945
There are inherent conflicts in reporting responsibilities when internal auditors report to the audit committee or to various levels of management.	0 (0.0%)	14 (12.0%)	16 (13.7%)	73 (62.4%)	14 (12.0%)	117	3.74	0.822
There is internal auditing quality assurance program in our organization.	0 (0.0%)	28 (23.9%)	18 (15.4%)	64 (54.7%)	7 (6.0%)	117	3.43	0.922

4.5. Internal Audit Independency

The study raises four questions to evaluate the independence of internal audit character of the study area. According to their response 56 (47.9%) respondents convinced that internal auditors feel free to include any audit findings in their audit reports, likewise, 36 (30.8%) respondents strongly agreed with this argument. In contrast, 10 (8.6%) study participants oppose against the above respondent opinion. The rest 15 (12.8%)

respondents quit to say any, i.e., neither they agreed nor disagreed with the above study participants opinion. This indicated that more than half of the study participants convinced the freeness of internal auditors in their sector.

Internal auditors have full access to records and information they need in conducting audits said 84(71.8) respondents, whereas, 17 (14.5) other study participants disagreed with idea. The remaining 16(13.7) respondents quit to say any, i.e., neither they agreed nor disagreed with the above participants opinion. This result indicates, as per the majority of the study participants opinion internal auditors of the sector can access information, related with their work, easily and freely.

According to the 69 (59.0%) respondents' opinion, in their sector internal auditors are free from any kinds of intervention. Similarly, 12 (10.3%) strongly support the above respondents opinion; in contrast, 21 (18.0%) respondents disagreed by those opponents opinion. This implies, of course as the most respondents believe, the internal audit of their sector never interrupted with any involvement.

The average respondents' perception level indicated that all of the attritions of internal audit independency are above the median cut of point. This indicated that according to the respondents' point of view the sector doing better to make the internal auditor independent (Table4.5).

Table4.5 Items of Internal audit independency in the case of Oromia Special Zone

Quality items	Strongly disagree	Disagree	Neutral	Agree	strongly agree	N	Mean	St, deviation
Internal audit is free from intervention in performing its duties.	1 (0.9%)	20 (17.1%)	15 (12.8%)	69 (59.0%)	12 (10.3%)	117	3.61	0.919
There is internal auditing's position in our organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence.	1 (0.9%)	14 (12.0%)	16 (13.7%)	67 (57.3%)	19 (16.2%)	117	3.76	0.897
Internal auditors have full access to records and information they need in conducting audits.	2 (1.7%)	15 (12.8%)	16 (13.7%)	57 (48.7%)	27 (23.1%)	117	3.79	0.999
Internal auditors feel free to include any audit findings in their audit reports	1 (0.9%)	9 (7.7%)	15 (12.8%)	56 (47.9%)	36 (30.8%)	117	4.00	0.910

4.6. Internal Audit Objectivity

More than three fourth of the study participants agreed with the statement which is stated that the audit findings are discussed with auditee or organization being auditing before reported a head. Contrarily, 4(3.4%) respondents disagree and strongly disagreed with the above expression. The rest 7(6%) of the study participants quit to say any, i.e., neither they agreed nor disagreed of the other participants against.

According to the vast majority, 83 (70.9%), of the study participants opinion internal audit assignments are rotated periodically, whereas, 16 (13.7%) of the other participants disagreed with those respondents believe. The remaining 18 (15.4%) study participants are not assured whether the audit assignment rotated periodically or not. This entails as most respondent convenience, of course the internal audit assignment are rotated periodically.

In general, most of the items average respondents perception level is above the median threshold, 3.0. This indicates', those lists of attribute, as per the respondents' opinion, capable to evaluate the internal audit quality. In that regard their sectoral offices don in those area in true to the moderate extent. The table below elaborates more on the internal audit quality (Table 4.6..)

. Table4.6. Items of Internal audit objectivity in the case of Oromia Special Zone

Quality items	Strongly disagree	Disagree	Neutral	Agree	strongly agree	N	Mean	St, deviation
Internal audit assignments are rotated periodically.	2 (1.7%)	14 (12.0%)	18 (15.4%)	77 (65.8%)	6 (5.1%)	117	3.61	0.830
Internal audit supervisor or manager supervises field work.	1 (0.9%)	7 (6.0%)	12 (10.3%)	80 (68.4%)	17 (14.5%)	117	3.90	0.747
Internal audit supervisor reviews the internal audit work papers.	0 (0.0%)	4 (3.4%)	14 (12.0%)	57 (48.7%)	42 (35.9%)	117	4.17	0.769
The audit findings are discussed with auditee or organization being auditing before being reported.	2 (1.7%)	2 (1.7%)	7 (6.0%)	33 (28.2%)	73 (62.4%)	117	4.48	0.826

4.7. The Auditor Proficiency

Regarding the auditor proficiency, 91 (77.8%) respondents agreed with internal audit has policies for training of internal audit staff, whereas, other 13 (11.1%) study participants opposed the above respondent argument. This indicated that according to three fourth of the respondents opinion the sector provide a training, to improve the quality of auditing system, for the auditors.

Internal auditors possess sufficient experience to understand the organizations systems said 70(59.8%) respondents; whilst, 23(19.7%) respondents did not support the above argument, as their opinion the experience of the auditors is not enough. Still more than half of the study participants convinced that internal auditors possess sufficient experience to handle their sectors system.

Furthermore as the below table illustrated the majority of the study participants, 53 (45.3%), convinced disagreed with the statement which is stated that internal auditors undertake continuous professional development activities, likewise, 2 (1.7%) study participants strongly support the argument of the above respondents. In contrast, 32 (27.4%) of the respondents believed that in their sectors continual professional development activates were doing, similarly, 6 (5.1%) other respondents strongly support the latter arguer opinion. This result indicates more study participants convinced internal auditors were not undertaken continuous professional development activities.

The least average score is registered in the expression which is stated “internal auditors undertake continuous professional development activities” with a mean of 2.89. However, the reaming attritions mean scores are above the median threshold according to the majority of the respondent agreement, auditor proficiency above the true to moderate extant (Table4.7.).

Table 4.7. Items of Internal audit proficiency in the case of Oromia Special Zone

Quality items	Strongly disagree	Disagree	Neutral	Agree	strongly agree	N	Mean	St, deviation
Internal audit has policies for training of internal audit staff.	0 (0.0%)	13 (11.1%)	13 (11.1%)	77 (65.8%)	14 (12.0%)	117	3.79	0.80

Adequate short term training is arranged for internal auditors each year.	3 (2.6%)	34 (29.1%)	18 (15.4%)	50 (42.7%)	12 (10.3%)	117	3.29	1.08
Internal auditors undertake continuous professional development activities.	2 (1.7%)	53 (45.3%)	24 (20.5%)	32 (27.4%)	6 (5.1%)	117	2.89	1.00
The management of your organization has a commitment to add value to the internal audit function.	2 (1.7%)	19 (16.2%)	27 (23.1%)	60 (51.3%)	9 (7.7%)	117	3.47	0.92
Internal auditors possess sufficient experience to understand the organizations systems.	0 (0.0%)	23 (19.7%)	24 (20.5%)	60 (51.3%)	10 (8.5%)	117	3.49	0.91
Internal Audit department is large enough to successfully carry out its duties.	1 (0.9%)	49 (41.9%)	19 (16.2%)	42 (35.9%)	6 (5.1%)	117	3.03	1.01

4.8. Performance of the Audit Work

According to the result revealed in the table below, the vast majority, 103(88%), of the respondents argued that internal auditors check compliance with establish police and accounting procedures. But, 3 (2.6%) respondents oppose the above study participants' argument. The rest 11 (9.4%) study participants quit to say any, i.e., neither they agreed nor disagreed of the other participants supported and against argument. This result implied that internal auditors check compliance with establish police and accounting procedures.

About 98 (82.9%) respondents were agreed with the expression which stated that internal auditors review the segregation of duties, whereas, 2 (1.7%) other study participants against the above respondent argument. The remaining 17 (14.5%) respondents quit to say any, i.e., neither they agreed nor disagreed of the other participants argument. This implies, most of the study participants support the above expression.

Moreover, the study result revealed in the table below that the system which the internal audit activity has been completed its plan well has a mean score of 3.14. With this explanation 44 (37.6%) respondents forwarded their agreement likewise 8 (6.8%) respondents strongly support those respondents opinion. However, 44 (37.6%) of the study participants oppose the above respondents opinion and said the internal audit activities have not been completed as per the allocation time. Of course, more than half of the study participants support the above argument positively.

The highest mean score is carried on the statement which stated that the internal auditors check compliance with establish police and accounting procedures, with the score of 4.34. However, the least average score is registered in the expression which is stated “the internal audit activity have been completed its plan well” and “the system helps manager for decision” with a mean of 3.40. Even if the score is less compared with other performance of audit work items, still it is above the median threshold. So, in general specking most of the respondents agreed the sector worked in this domain better. For more detail look at the table indicated below (Table4.8).

Table 4.8. Items of performance of audit work in the case of Oromia Special Zone

Quality items	Strongly disagree	Disagree	Neutral	Agree	strongly agree	N	Mean	St, deviation
Internal auditors review the segregation of duties.	0 (0.0%)	2 (1.7%)	17 (14.5%)	77 (65.8%)	21 (17.9%)	117	4.00	0.63
The internal auditors check compliance with establish police and accounting procedures.	0 (0.0%)	3 (2.6%)	11 (9.4%)	46 (39.3%)	57 (48.7%)	117	4.34	0.76
Internal audit obtains a sufficient budget to successfully carry out its duties.	3 (2.6%)	12 (10.3%)	21 (17.9%)	73 (62.4%)	8 (6.8%)	117	3.61	0.86
The internal audit plan is done based on organization’s risk profile.	0 (0.0%)	11 (9.4%)	13 (11.1%)	74 (63.2%)	19 (16.2%)	117	3.86	0.78
The internal audit activity have been completed its plan well.	0 (0.0%)	44 (37.6%)	21 (17.9%)	44 (37.6%)	8 (6.8%)	117	3.14	1.01

4.9. Assessment of Ordinary Least Square Assumptions

4.9.1. Detecting of Outliers

Primarily, the existence of outliers was detected by using a Cook’s distance. If the

maximum Cook's distance greater than one, the extreme value which can affect the distribution would be expected. Otherwise, outliers are not detected which capable to interrupt the outcome. Therefore, as the result reviled, the minimum distance is 0.000; while, the maximum is 0.347. Thus, the estimated distance is less than expected threshold value 1, so the problem of outlier is not obvious in this study.

Table 4.9. Tests of outliers by using a Cook's distance

	Minimum	Maximum	Mean	Std. Deviation	N
Cook's Distance	.000	.325	.011	.034	117

4.9.2. Assessment of Normality

The explanatory variables of this study include internal audit quality (Qual), internal audit independency (Ind), internal audit objectivity (Obj), and internal audit proficiency (Prof). However, the dependent variable is performance of audit work (Perf). Table...contains the normality test for all of the independent variables.

The test of normality is done by Kolmogorov-Smirnov and Shapiro-Wilks tests. According to Field (2009), when the test is significant if the p-value greater than the significant value (0.05). That is, if the significant value of the distribution above the threshold of the probabilistic result (0.05), the researcher has full evidence to conclude that the distribution is normal.

In fact, for the tests on samples from 3 to 2000 Shapiro-Wilks test is recommended, whereas, if the sample (n) above 2000, Kolmogorov Smimov test is suggested. Thus, the Shapiro-Wilks normality test was used for this research.

Accordingly, as the result illustrated in the below table, all of the tested variables found to be normal with 0.05 level of significant, because as the above expiration illustrated the p-value of all the explanatory variables are above the significant level. For more information look at the table below (Table 4.10).

Table 4.10. Test of normality

Variables	Kolmogorov-Smimov ^a			Shapiro-Wilk		
	statistic	df	Sig.	statistic	df	Sig.
Qual	0.188	116	.200*	0.910	116	0.356*
Ind	0.236	116	.200*	0.909	116	0.392*
Obj	0.177	116	.200*	0.929	116	0.441*
Prof	0.217	116	.200*	0.923	116	0.530*

a. Lilliefors Significance Correction,

df: degree of freedom;

Sig: significance

* Indicates significant with 0.05 level of precision

4.9.3. Assessment of Multicollinearity

Multicollinearity exists when there are strong correlations among the predictors. If the correlation coefficient (r) greater than 0.80 or the tolerance value below 0.10 or the variance inflation factor (VIF) greater than 10, multicollinearity problem would be a serious problem for the distribution (Field, 2009). Tolerance is a test statistics used to indicate the variability of the specified independent variable whether explained by other independent variables in the model or not.

As the study result illustrated, the entire variables tolerance are greater than 0.10 and the VIF value less than 10. So, there is no multicollinearity problem that alters the analysis of the regression model (Table 4.11)

Table 4.11 Collinearity statistics

Collinearity Statistics		
Variables	Tolerance	VIF
Qual	0.585	1.710
Ind	0.520	1.922
Obj	0.753	1.328
Prof	0.836	1.196

4.9.4. Relationship between the Dependent and Independent Variables

A correlation analysis was used to examine the strength of the relationships between independent variables, internal audit quality (Qual), internal audit independency (Ind),

internal audit objectivity (Obj), and internal audit proficiency (Prof) dependent variable performance of audit work (Perf). Table..indicates the correlations between explanatory and dependent variables.

Basically, the test helps to identify important factors which capable to affect the dependent variable. Therefore, the results of correlation analysis show that the entire explanatory variables such as Qual, Ind, Obj and Prof are linearly associated with Perf with a 0.05 level of significance. Moreover, the variables develop a strong positive association with the dependent variable performance of audit work, because the correlation coefficients of the selected explanatory variables are positive.

Table 4.12. The correlations matrix among project success and the allocated factors

Variables	Qual	Ind	Obj	Prof	Perf
Qual	1.00				
Ind	0.575**	1.00			
Sig (2- td ^a)	0.000				
Obj	0.177**	0.481**	1.00		
Sig (2- td ^a)	0.056	0.000			
Prof	0.404**	0.284**	0.096	1.00	
Sig (2- td ^a)	0.000	0.007	0.305		
Perf	0.427**	0.498**	0.506**	0.523**	1.00
Sig (2- td ^a)	0.000	0.000	0.000	0.000	

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

4.9.5. Normality of the Error Term

As indicated in the third chapter of model specification part, the error term should be normally distributed with a mean of zero and standard deviation of one. This test can be done by using histogram with a normal curve plot. According to the graph illustrated, the assumption is achieved its goal; because, the mean of the error term is 5.43×10^{-16} which is approaching to zero and the standard deviation 0.983 which is nearest to one. Therefore, the distribution of the random error term is standardized normal.

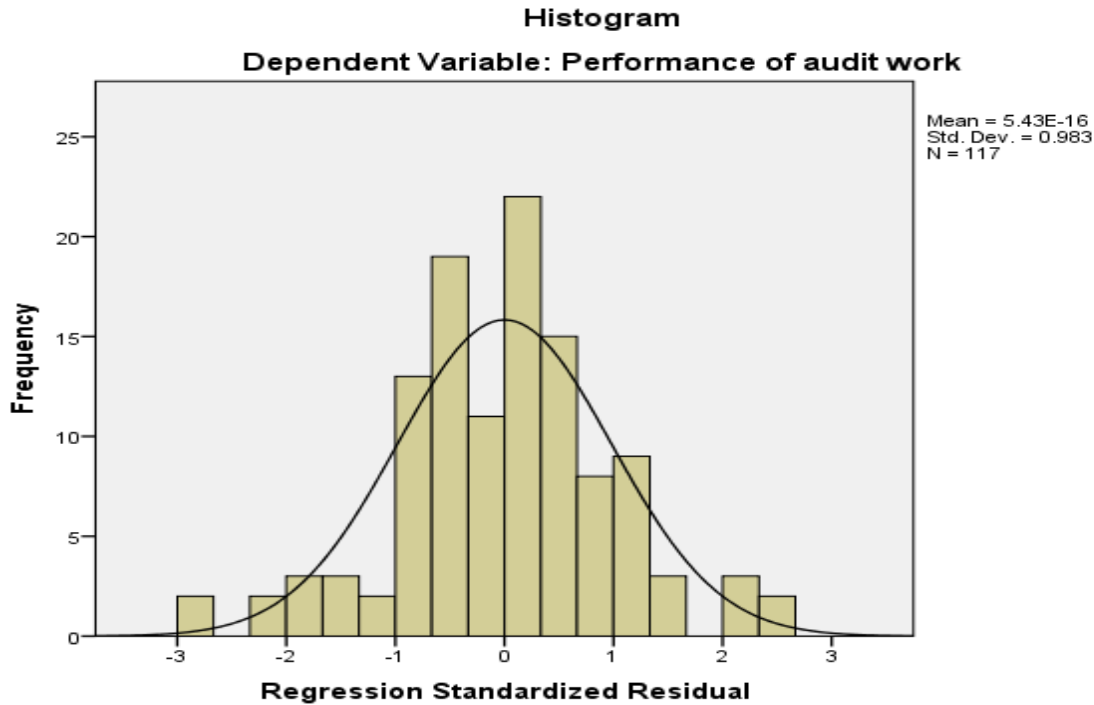


Fig 4c. The normality tests of the error term

Source: own analysis

4.9.6. Assessment of Heteroscedasticity

When the error term varied with the independent variables, the problem of Heteroscedasticity would occur. This is tested by drawing a graph with standardized predicted versus standardized residual curve. In the curve if any continuity trend can be observed, i.e., if standardize performance of audit work show an increment or decrement trend over the standardized residual, the problem is detected otherwise it is safe from the problem. In that regard, the distribution of the data did not indicate any such kinds of trend; hence, Heteroscedasticity problem is not detected (Fig..).

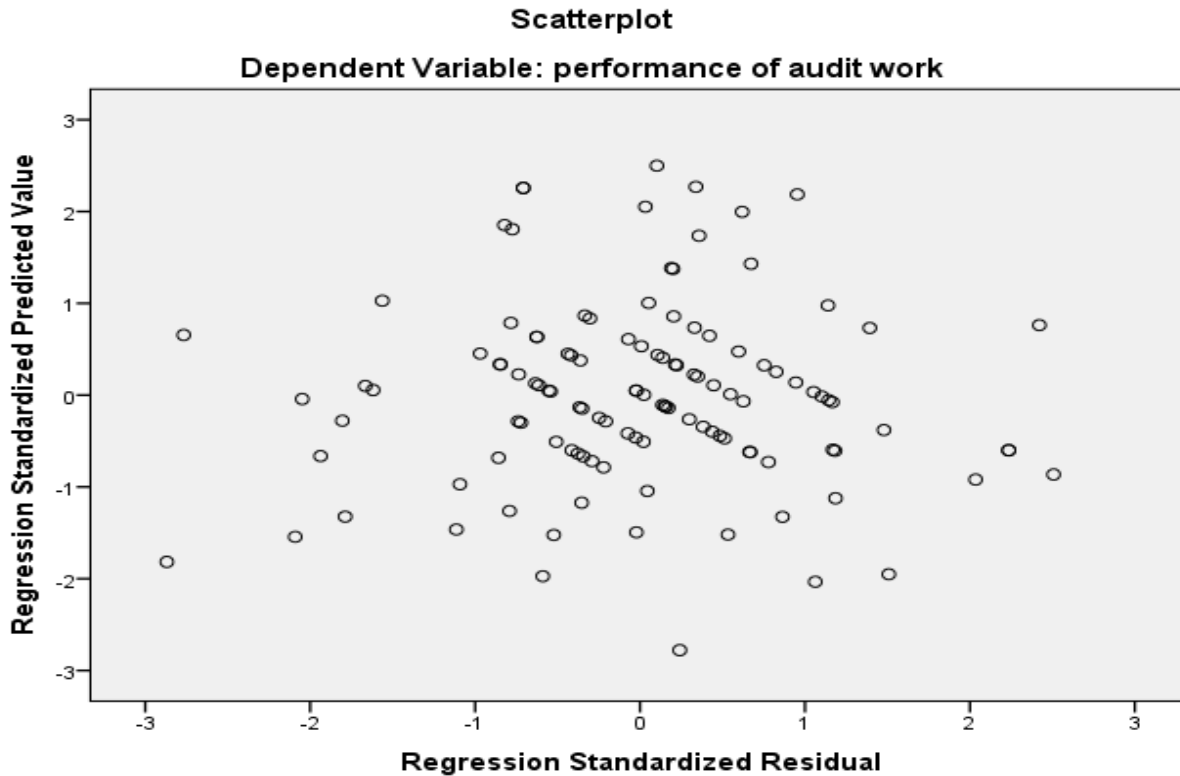


Fig. 4.d. Heteroscedasticity Test

Source: own analysis

4.9.7. Regression Analysis

Regression analysis was conducted to examine the causal and strengthens of a relationships between the dependent and independent variables. A regression model was formulated and tested where the dependent variable represented practices of internal audit hereafter called the performance of audit work (Perf), and the independent variables: internal audit quality (Qual), internal audit independency (Ind), internal audit objectivity (Obj), and internal audit proficiency (Prof).

Basically, the regression analysis is used to test how the model fits and investigate the determinant variables to the dependent once in the model. Finally, the research questions were got their proper answer based on the proposed specific objectives and the regression output results.

The regression result explores the performance of the internal auditors audit work in the selected sectors by using the variables indicated in the conceptual framework. As

indicated in the previous chapter of the conceptual framework the appropriate indicators of the variable used to identify the expected factors of performance of the audit work is indicated. The correlation analysis helps to identify whether all the expected factors are important to determine the model or not. As the result illustrated in the above section, of course the entire independent variables are important to determine the performance of the audit work.

Therefore, the study before giving more explanation about the model, primarily, supposed to test whether other misspecification problems occur or not due to the formulated frame work by using the ANOVA test. As the result illustrated in the table below, the F-test of the p-value is 0.000 and the significant value is 0.05. Hence, the significance (sig.) value is greater than that of the p-value; therefore, accept the hypothesis which is stated that the model is fitted or good. Having this in mind, the next question which follows is how much is the model good. The answer is given by the goodness of fit test (R^2) value. That is, the value of R square used to measure how much of the variation in the dependent variable (Perf) identified by the regressors. The larger the value of R square, the better it fits.

In the table below R, R square, adjusted R square, and the standard error were displayed. R is measure the multi-correlation coefficient which is measuring the relationship between the dependent and predictor variables. The values of R range from -1 to 1. The sign of R indicates the direction of the relationship (positive or negative). The absolute value of R indicates the strength, with larger absolute values indicating stronger linier relationship. So, the value of R is 0.724 which implies the dependent and the predictors have developed strange positive linear association.

Moreover, as discussed above R square is the tolls which help to quantify the proportion of variation in the dependent variable explained by the regression model. It is ranged from 0 to 1. Small values indicate that the explainable level of the independent variables to determine the dependent variable is weak. The sample R squared tends to optimistically estimate how well the models fit for the population. Both R square and adjusted R square somehow has the same meaning and purpose. But, the adjusted R square is applicable for the small numbers of observation ($n < 30$) and numbers of

variables. So, in the case of this study, the researcher used the adjusted R square, because the numbers of variables involved in the study were few. In that regard, the adjusted R square value in this case was 0.507. This shows that the four independent variables of the model accounted for 50.7% of the variation over the performance of audit work of the sector offices (the dependent variable); whereas, the rest 49.3% of the variation can be covered by other unknown variables which are not included in the study.

The other misspecification problem can be handled by the t-test statistics. That is, the researcher checked whether all the factors are important to determine the model or not, by using t-test statistics. If the p-value is less than the significance value = 0.10, the factor/s are important to determine the model; otherwise, the factor should be rejected in the model. According to this study result, all variables except internal audit quality are important to determine the dependent variable with the 90% confidence interval.

The sign of the beta coefficient (β) also shows the +ve or -ve effect of the independent variables over the dependent one. From the result revealed in the table below, the β sign of four independent variables is positive over the predicting variable. That means, any increase or decrease in the independent variables leads to an increase or decrease in the dependent variable.

Result of regression analysis presented in the table below also provides a more comprehensive and accurate examination of the research questions. Therefore, the regression analysis was used to test the developed questions based on the specific objectives and investigate the contributions of the independent variables to the dependent one.

Primarily, the researcher wants to check whether internal audit quality (Qual) is a statistically significant determinant of the performance of audit work (Perf) of the sector or not. Hence, the result elaborated that the indicated factor is not significantly associated with the dependent variable; because the p-value (0.210) of the t-statistics is larger than the significance value (0.10). Therefore, the assumed hypothesis, which stated that Qual is significantly important to determine project success, is failed. So, there is full evidence that the two variables are not associated to each other. This implies, even if

other literature convinced the internal audit quality had a better contribution for the internal audit work, the finding of this study illustrated that this factor is not that much important to determine the audit work.

The second hypothesis tested in here that whether internal audit independency (Ind) has significant impact on the performance of internal audit work (Perf) or not. As a result of course the two variables positively associated to each other with a 10% level of significant. As a result elaborated if the sector improves its audit independency strategy by unit percentage change, the performance of the audit work would escalate 15.6% take the reaming effect as zero.

Similarly, the study wants to check whether internal audit objectivity (Obj) have significant impact on the performance of internal audit work (Perf) or not. The result of the study also reviled in the table below that objectivity of internal audit has statically significant contribution on the performance of internal audit work of the sector. So, there is strong evidence that the Obj is determining the Perf. Thus, for a unit percentage change of Obj would lead to 37.2% increment on Perf taking the remaining effect as a constant.

Meanwhile, the internal audit proficiency (Prof) have statically significant effect on the performance of audit work (Perf) of the indicated sector. So, there is a good evidence to conclude that the two factors positively associated to each other. In that regard, a unit percentage increment of internal audit proficiency lead the performance of the internal work to increases 40.5% under the consideration of all the remaining effect as constant.

Table 4.13: Summary of regression model result

R = 0.724		R² = 0.524		Adjusted R² = 0.507		SE = -0.3775	
				F = 30.78		p = 0.000	
Variables	Unstandardized Coefficients		Standardized Coefficients		t-value	Sig.	
	Beta	SE	Beta				
Constant	0.321	0.332			0.966	0.336	
Qual	0.083	0.066	0.108		1.261	0.210	

Ind	0.114	0.066	0.156	1.731	0.086
Obj	0.386	0.078	0.372	4.957	0.000
Prof	0.350	0.062	0.405	5.676	0.000

Dependent variable: Project success (ProjSucc)

CHAPTER FIVE

5. Summary of Findings, Conclusions and Recommendations

5.1 Introduction

The purpose of this chapter is to delineate the summary of the findings, conclusion and some recommendations. All in all, this chapter is to depict the entire findings collectively and synthesize the contribution of this study through conclusion.

5.2. Summary of Finding

The objectives of the study are to assess internal audit practices in Oromia special zone around Finfine government public sector offices. Both descriptive and inferential statistical analyses were used in the study. The main findings of the study are summarized as follows:

In terms the participants educational level about 6(5.15%) of survey respondents had Master Degree, 94(80.3%) had bachelor degree, 1(0.9%) had diploma in accounting, whereas, 16 (13.7%) respondents had bachelor degree other than accounting qualification. In terms of work experience, the study participants had minimum 1 year and maximum 28 years average work experience.

The questionnaire results showed that the internal audit activities in Oromia special Zone around Finifinne Public sector offices comply with the IIA's standard, authority of internal audit is clearly defined, the organizations are leaded by audit charter and authority of internal audit is in line with standards for the professional practice formulated by IIA. But there are inherent conflicts in reporting responsibilities when internal auditors report to various levels of management. This finding is equivalent with Kadir Hasan (2015)

findings.

The finding of the result also elaborated that around 92 (78.7%) of the respondents convinced that internal audit staff and internal auditors are felt free to include any audit findings in their audit reports. Likewise more than $\frac{3}{4}$ of the respondents convinced that in their sector auditors have full access to records and information they need in conducting audits and the internal auditing's position in their sector is sufficiently high and detached from functional areas to guarantee its independence. The study was also found that 81 (69.3%) of the respondents noted that internal audit is free from intervention in performing its duties. Still, this finding is somehow similar with Kadir Hasan (2015) findings.

Regarding the internal audit objectivity, 106 (90.6%) of the respondents agreed with the audit findings are discussed with auditee or organization being auditing before being reported. Similarly, the study result revealed that the vast majority of the study participants agreed with internal audit supervisor reviews the internal audit work papers. More than three for the of the respondents also informed internal audit supervisor or manger supervises field work and assignments are rotated periodically.

In the case of internal audit proficiency, the study result was found that more than three quarter of the study participants agreed with in there sector internal audit has policies for training of internal audit staff, and also the auditors possess sufficient experience to understand the organizations systems. The same size of the study participants also convinced that the management of their organization has a commitment to add value to the internal audit function; in addition, adequate short term training is arranged for the auditors each year. Contrarily, more than $\frac{1}{2}$ of the respondents disagreed with internal auditors undertake continuous professional development activities.

Regarding to performance of audit work, 103 (87.0%) of the respondents believed that the internal auditors check compliance with establish police and accounting procedures. Likewise, 98 (83.7%) study participants convinced that internal auditors review the segregation of duties. More than $\frac{1}{2}$ of the study participants also convinced that internal audit plan is done based on organization's risk profile. Moreover, the participants agreed

with internal audit obtain a sufficient budget to successfully carry out its duties and its activity has been completed within a stated plan.

The inferential study result also revealed that the entire independent variables: internal audit quality (Qual), internal audit independency (Ind), internal audit objectivity (Obj), and internal audit proficiency (Prof) are important to determine the performance of the audit work (Perf). In the other word all of the independent variables are associated with the dependent variable. Moreover, all of the independent variables show positive effect on the dependent variable. This finding is the same as the finding of Rahmatika (2013).

Internal audit proficiency (Prof) is the highest positively related to the performance of audit work (Perf) with 40.5% increment effect. This result is same as Sawan, (2013) and Brierley *et al*, (2001) findings. The second highest determinant factor is internal audit objectivity. As the result revealed for a unit percentage change of Obj would lead to 37.2% increment on Perf taking the remaining effect as a constant. This finding is differ to Faudziah ha, ha, mu. (2005) result. Internal audit independency is also statistically significant determinant for internal audit performance with a 0.1 level of significance. Of course Junio-Sabio, (2013), Alzeban and Sawan, (2013) study findings also the same as this result. But, as the result illustrated internal audit quality is not determine the performance of audit work. The result is contradicted with Hamdu Ke (2014) report.

5.3 Conclusion

Internal audit independency, objectivity and proficiency have a positive effect on performance of the audit work. The management support, the existence of adequate and competent IA staff, and the availability of approved IA charter contribute more for the performance of audit work in the government sectors.

Internal audit proficiency like giving training for the auditors, developing professional staffs, adding a value for internal auditors and worked the job by professional officials contribute more for the performance of audit work.

Moreover, the internal objectivity plays a significant role for the development of better audit work. In fact the internal audit assignments are rotated and the entire work

supervised by other external as well internal professionals. Before the audit work submitted and reported, it reported for the auditee and the auditor reviewed again and again.

Internal audit independency is one of the great pillars of audit work improvement. So, the audit was feeling free from any external pausing what so ever the findings are. The auditors also have a good access to record any information they needed.

5.4 Recommendations

This section provides some recommendations as a solution to mitigate the operational problems of internal audit practice in the Oromia special zone government public sector offices so that to improve internal audit practices, the researcher has tried to provide briefly the following recommendations:

- To improve the internal audit practices better than the current in the special zone government public sector offices, auditee should support internal auditors in terms of full access to records and information they need in conducting audit, give full cooperation and management of the government public sector should have commitment to add value to internal audit function. Furthermore, senior management, government and public sector should increase extent of management and other organs support, understand and appreciate the role of internal audit practices in achieving organizations objectives.
- Internal audit activity must be independent. And the auditors also should get any information freely as their need. Because, if the auditor access and get any information related to the subject, the practice and performance of audit work can be improved. In that regard both governmental as well sectoral offices will get error free report. Especially, if the sector wants to improve the performance of the audit work, it should work more on the internal audit proficiency.
- The internal auditors also must be objective in performing their work. To improve the objectivity of the internal audit, the audit assignment should be rotated periodically.

Furthermore, sufficient budget allot to the internal audit unit to successfully carry out its duties. Every activity should be monitored and revised again and again. In fact objectivity is the second most important factor which triggered to improve the performance of auditor work. Therefore, for the better improvement the sector should work in this area too.

- In relation to the proficiency according ISPPIA attribute standards no. 1200 - proficiency and due professional care requires that engagements must be performed with proficiency and due professional care. Hence, training programs beyond accounting and finance, professional development to the internal audit staffs in the special zone government public sector offices have developed and assigned resource they needed in performing their work to enhance the effectiveness of internal audits in the government sectors. Therefore, the internal audit activities (internal audit unit) were well done and should have done more for success.

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Appendix 1
Addis Ababa University
School of Post Graduate Students
Department of Accounting and Finance

This is questionnaire designed to meet the objective of research project titled “Internal Audit Practice the case of Oromia Special Zone around Finfine” for partial fulfillment of MSC in Accounting and Auditing from Addis Ababa University.

Dear respondent, I would like to assure you that your response will only be used for the intended purpose and remains confidential.

Thank you for your Cooperation!

assurance program in our organization.					
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203. Internal audit independency

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a. Internal audit is free from intervention in performing its duties.					
b. There is internal auditing's position in our organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence.					
c. Internal auditors have full access to records and information they need in conducting audits.					
d. Internal auditors feel free to include any audit findings in their audit reports					

204. Internal audit objectivity

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a. Internal audit assignments are rotated periodically.					
b. Internal audit supervisor or manger supervises field work.					
c. Internal audit supervisor reviews the internal audit work papers.					
d. The audit findings are discussed with auditee or organization being auditing before being reported.					

205. Proficiency of the auditor

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a. Internal audit has policies for training of internal audit staff.					
b. Adequate short term training is arranged for internal auditors each year.					
c. Internal auditors undertake continuous professional development activities.					
d. The management of your organization has a commitment to add value to the internal audit function.					
e. Internal auditors possess sufficient experience to understand the organizations systems.					
f. Internal Audit department is large enough to successfully carry out its duties.					

206. Performance of audit work

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a. Internal auditors review the segregation of duties.					
b. The internal auditors check compliance with establish police and accounting procedures.					
c. Internal audit obtains a sufficient budget to successfully carry out its duties.					
d. The internal audit plan is done based on organization's risk profile.					
e. The internal audit activity have					

been completed its plan well.					
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This is interview designed to meet the objective of research project titled “Internal Audit Practice the case of Oromia Special Zone around Finfine” for partial fulfillment of MSC in Accounting and Auditing from Addis Ababa University.

Dear respondent, I would like to assure you that your response will only be used for the intended purpose and remains confidential.

Thank you for your Cooperation!

1. Is the purpose of internal audit office clearly defined by audit charter?
2. Where is the internal auditor department positioned in the organization?
3. Are there Professional development program for the internal auditors?
4. Are there a proper way planning of audit activities?
5. As to your understanding is there supervision of audit field work?
6. Does the management allot sufficient budget to internal audit activities?
7. Does the internal auditor at the organization get continuous training on internal auditing?
8. What are the major risks facing internal auditing?

