



INTERNAL AUDIT PERCEPTIONS: THE CASE OF SELECTED FEDERAL ORGANIZATIONS IN ADDIS ABABA

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Statement of Declaration

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

Name of Student: _____

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Statement of Certification

This to certify that AshenafiAlayu has carried out this thesis on the topic entitled “Internal Audit Perceptions: the Case of Selected Federal Organization in Addis Ababa” in partial fulfilment for the award of Masters of Science (MSC) in Accounting and Finance under my guidance and supervision. I certify that this thesis work is original in nature and has not presented in any means and to any award.

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Date: _____

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

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SELECTED FEDERAL ORGANIZATION IN ADDIS ABABA**

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List of Acronyms

ECBs: Ethiopian Commercial Banks

GAAP: Generally Accepted Accounting Principles

IA: Internal Audit

IIA: Institutes of Internal Auditors

IT: Information Technology

MOFED: Ministry of Finance and Economic Development

NGOs: Non-Governmental Organizations

TABLE OF CONTENTS

Acknowledgements.....	iv
List of Acronyms.....	v
Abstract.....	viii
TABLE OF CONTENTS.....	vi
CHAPTER ONE	
INTRODUCTION.....	1
1.1. Background of the study.....	1
1.2. Background of the organization.....	3
1.3. Statement of the problem	4
1.4. Objectives of the study	6
1.5. Research questions	6
1.6. Significance of the study	7
1.7. Scope of the study	7
1.8. Organization of the study	7
1.9. Research setting.....	8
CHAPET TWO	
LITRATURE REVIEW	9
2.1 THEORETICAL REVIEW.....	9
2.1.2. DEFINITIONS, FUNCTIONS AND RESPONSIBILITIES OF INTERNAL AUDIT	9
2.1.2. CODE OF ETHICS.....	13
2.1.3. THE AUDIT CHARTER	13
2.1.5. Perception	14
2.2. EMPERICAL REVIEW	15
2.2.1 In Ethiopia	15
2.2.2 Outside Ethiopia.....	16
2.3. RESEARCH GAP	21
CHAPTER THREE	23
RESEARCH METHODOLOGY	23
3.1. Introduction	23
3.2. Research Approach and Design	23
3.2.1. Research Approach	23
3.2.2. Research Design	23
3.3. Population and Sampling	23
3.3.1. Sampling Method.....	24
3.3.2. Sample Size	24
3.4. Data Collection Instrument.....	25

3.5. Data Analysis Method	25
.....	25
CHAPTER FOUR	
RESULTS AND DISCUSSIONS.....	28
4.1. Introduction	28
4.2. Response Rate.....	28
4.3. Demographic Information.....	28
4.3.2 Age Group	28
4.3.3 Field of Study, Qualification and Certification	29
4.3.4. Work Experience.....	30
4.3.5. Current Position in the Organization	30
4.4. Internal Audit Perceptions	31
4.4.1 Perception on Internal Audit Independence	31
4.4.2 Perception about internal audit competency.....	32
4.4.3 Perception about internal audit objective and scope.....	33
CHAPTER FIVE	
SUMMARY, CONCLUSIONS AND	36
RECOMMENDATIONS	36
5.1 Introduction	36
5.2 Summary of Findings.....	36
5.3 Conclusions	38
5.4. Recommendation.....	38
5.5 Limitation and suggestion for further study.....	39
REFERENCES.....	40
APPENDIX.....	42

Abstract

Federal organizations are fully or partially financed by the government, so their budget must be controlled and examined if they are used their budget effectively and efficiently. This is done by internal auditors assigned by Ministry of Finance and Economic Development for each federal organization. This research was tried to assess the perceptions of management and staffs about an internal audit in federal organizations. This research used descriptive research design, qualitative research approach and a questionnaire as data collection method in order to achieve its objectives. In order to answer the research question, 100 relevant questionnaires were developed and distributed to selected participants in the survey and 76 were received giving a response rate 76 %. The study population was management and staff members of finance, human resource and procurement department of 124 federal organizations. This study used random sampling technique to select federal organizations and staff members in the purposively selected departments. The sample size of this study was 10 top management and 90 finance, human resource and procurement staffs in 10 selected federal organizations. The study used primary data collected from well-structured questionnaires and collected from each sampled organizations. The researcher analysed the collected data using descriptive statistics and presented the data in terms of percentage, mean, standard deviation, frequency distribution and tables. Based on the findings of this study, the management and staffs agreed on the independency, competency, and objectivity of an internal audit. The study recommended internal auditors must be independent, competent and objective in order to be perceived positively by the management and staffs.

Key words: *internal audit function, perception, federal organization, independence, competency, objectivity.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Federal governmental organizations are part of public body which is partly or wholly financed by government budget and concerned with providing basic public service to the whole society (MoFED, 2004). The compositions of these public sectors are varied by their function and purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals. Most of these public sectors have a budget source from MoFED and their budget is controlled by MoFED. There are about 124 public sectors which have a budget source from Ministry of Finance and Economic Development (FDRE organizations re-establishment, proclamation No.1263/2014). The auditors of these public sectors are assigned by MoFED. MoFED shall have the duty to supervise and monitor the finance of the federal government; and conduct audit of public sectors, if it deems necessary ; to ensure that systems are established for planning, allocating resources and appropriation of budget which enable proper utilization of public resources and to oversee the internal audit functions of public sectors and develop appropriate standards of work and conduct for application throughout all public sectors internal audit functions and develop internal control standards, assist in building the capacities of the internal audit. Which interns needs internal auditors to make an extensive follow up and report to the concerned body whether the budgeted amount is used for predetermined goals or not (FDRE financial administration proclamation No. 648/2009).

According to Ethiopian internal audit manual, auditing is a process by which a competent, independent person, accumulate and evaluate 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. According to the definition of Institute of Internal Auditors, 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. Internal auditing (IA) serves as an important link in the business

and financial reporting processes of organizations. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (IIA, 2013). The importance of internal audit function within the organization can also be justified with the fact that a strong internal audit function is to prevent financial reporting irregularities in the presence of unambiguous potential GAAP violation (Arel et al., 2012). Sarens et al (2012) state that internal audit function is bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of internal control, risk management and governance process with internal auditor's growing role in modern corporate governance, independence has gained renewed attention and the institute of internal auditors (IIA), a guidance setting body for internal auditors activities, has promoted the internal audit function as an independent function that provides both assurance and consulting services (IIA, 2003). Regoliosi&d'Eri (2012) dedicate the internal audit function as being the most appropriate solution to meet objectives of assurance and consulting audit. Internal audit plays an important role in an organization process, and therefore it is not only required to perform ordinary assurance, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency. Organizations with effective and efficient internal audit function are able to detect fraud more than those that have no such function within their organization (Corama et al., 2008). Effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance.

Despite internal audit contribution to the governmental organizations, there are some internal audit perceptions by the management and staffs about internal audit independence, competency and objectivity. According to Chambers (2005) some of the myths about internal auditors are internal auditors are accountants by training, auditors are nit pickers and fault finders, it is best not to tell anything unless they specifically ask and internal audit is the corporate policeman. Management perceive internal audit function as expensive to run from within. Management's view is that adopting a strategic view for outsourcing decisions can lead to a number of benefits including reduced costs, increased flexibility, improved innovation and technical development (Pedia et al, 2012).

Roussey (2000) states that negative perceptions about internal audit in most cases come from those who stand to benefit if an audit is not done, and when an audit is done they are found wanting. It is caused by the desperation to discredit audit for personal gain. Loss of

confidence in the internal audit function is the impact of internal audit expectation gap not met. When auditors fail to do what society or the work force expects them to do, this will cause a negative perception. For example, if fraud is being perpetrated openly in a company but auditors fail to pick it, there will be negative perception about audit. The effect of this negative perception is loss of confidence in the internal audit function.

This study tries to examine how the management and staffs perceive about internal audit independency, competency, and objectivity and scope.

1.2. Background of the organization

The study conducted on selected budgetary federal organizations in Ethiopia. Federal organizations are part of the governmental organization or wholly owned by a government and financed by the government budget. As per proclamation 1263/2014 of the federal democratic republic of Ethiopia, to re-establish a new organizational arrangement for federal democratic republic of Ethiopia, this is aimed to regulate powers and duties of executive bodies of the government. Under this proclamation 124 organizations are established out of these 22 ministries, 77 organizations called for the ministries, 20 organizations called for the prime minister, 5 organizations called for organizations which are called for the prime minister.(FDRE organizations re-establishment, proclamation No. 1263/2014)

Ministries	Organizations called for the Ministries
1. Ministry of Agriculture	9 organizations
2. Ministry of Industry	2 organizations
3. Ministry of Mine	2 organizations
4. Ministry of Tourism	2 organizations
5. Ministry of Work and	3 organizations
6. Ministry of Finance	4 organizations
7. Ministry of Revenue	1 organizations
8. Ministry of Planning and Development	3 organizations
9. Ministry of Innovation and Technology	4 organizations
10. Ministry of Transport and Logistic	4 organizations
11. Ministry of Urban Development	3 organizations
12. Ministry of Water and Energy	3 organizations
13. Ministry of Education	5 organizations
14. Ministry of Health	12 organizations
15. Ministry of Defence	9 organizations
16. Ministry of Foreign Affairs	2 organizations
17. Ministry of Justice	5 organizations
18. Ministry of Culture and Sport	4 organizations
19. Ministry of Trade and	
20. Ministry of aggregation	
21. Ministry of Women and Social Affairs	
22. Ministry of Peace	
Prime Minister	20 organizations
Ethiopian National Bank	2 organizations
Information security agency	2 organizations
Ethiopian civil service commission	1 organization

Table 1.1 Federal organizations in Ethiopia.

1.3. Statement of the problem

As mentioned in the literature review chapter of this research, previous studies in Ethiopia focussed on factors that affect the performance of internal audit function and assessment of internal audit practice in public sectors. To the researcher understanding, all of them did not assess the perception of other staff and management about internal audit. Today there are some researches in this area in Ethiopia, for example, Solomon (2018) in his paper, ‘‘perception of internal auditors on effectiveness of internal audit service in Ethiopian charities and societies: the case of selected foreign charities (International Non-Governmental organizations) examined the perception of internal auditors on the effectiveness of internal auditor service in Ethiopian charities and societies the case of selected charities (international non-governmental organizations) in Ethiopia. Bayou (2017) in his paper, ‘‘Auditors’ perception of audit quality in Ethiopia’’ aimed at examining the perception of external auditors on audit quality in Ethiopia. In Zimbabwe, Obert (2014) ‘‘internal audit perceptions and their impact on performance of internal audit function in Hawange area, Zimbabwe’’ tried to examine the factors causing negative perception of internal audit and the impact on the performance of the internal audit function. Therefore, all the above researches focus on auditors’ perception on the audit, and focus only on negative perception and did not take into account any other staffs and management perception on the internal audit.

Since, to the researcher’s understanding, there is no researches done on the perception of other staffs and the management of the organization to the internal audit in Ethiopia, this research fill the gap by attempting to assess the perception of internal audit independence, competency, and objectivity and scope in federal organizations. This research specifically focuses on assessing other staff members and management perceptions on an internal audit independence, objectivity, and competency etc.

Another reason to conduct this research is, since there have been many studies carried out to assess the perception of staff and management on internal audit function in many countries outside Ethiopia, the empirical evidence on this area is very thin in Ethiopia. Hence this study is undertaking with the intension of fulfilling this gap.

In addition to the above reasons, the last but not the least reason to conduct this research is, as the researcher is an internal auditor in one of governmental organization in Addis Ababa, the

researcher's department want to know how the management and other staff perceive about internal audit.

1.4. Objectives of the study

General objective

The general objective of this study was to assess the perceptions of management and staffs about an internal audit in federal organizations.

Specific objective

The study tried to achieve the following research objective at the end of the study. These are:

1. To assess the perception of management and staff about an internal audit independence in federal organization in Ethiopia.
2. To assess the perception of management and staff about an internal audit competency in federal organization in Ethiopia.
3. To assess the perception of management and staff about an internal audit objectivity and scope in federal organization in Ethiopia.

1.5. Research questions

This research tried to seek a solution for the following research questions:

1. How does the management and the staffs perceive about the internal audit independence in federal organization?
2. What are the perception of management and staffs about internal audit competency in federal organization?
3. What are the perception of management and staffs about internal audit objectivity and scope in federal organization?

1.6. Significance of the study

This study was conducted to assess the perception of management and staffs about an internal audit independence, competency, and objectivity and scope in federal organization in Addis Ababa. The findings, conclusions and recommendations of this study would contribute information for internal auditors on what the management and staffs perceive about their independence, competency, and objectivity and scope. It would provide information to make a correction to an abnormal perception about an internal audit. This study would be a reference material for future researchers who have an interest on this area. This study would also serves as knowledge by filling the gap in this area.

1.7. Scope of the study

This research was conducted in 2021/2022 Gregorian calendar. This research was conducted in some selected federal organizations in Addis Ababa; Ethiopia. The main issue which is addressed by this research is the perceptions of the management and staffs about an internal audit independence, competency, and objectivity and scope. It focused on the view of the organizations' management and staff. It also focused on support activity department members such as finance department, procurement department, and human resource department. This study also focused on senior staff members having at least 2 years of experience with in governmental organization. This study used a descriptive research design, quantitative research approach, and random sampling technique in selecting federal organization in Addis Ababa and purposive sampling technique in selecting departments in federal organizations.

1.8. Organization of the study

This research was organized into five chapters. The first chapter provided the introduction of the study which consists of background of the study, background of the organization, statement of the problem, research objectives, research questions, significance of the study, scope of the study, organization of the study and research setting. The second chapter was literature review and provided theoretical review, empirical review which was researches that are related to this study, and research gap. The third chapter was the research methodology which was employed in this study includes introduction, research approach, research design, population and sampling, data collection and data analysis. The fourth chapter was data

analysis and interpretation which interprets the data collected using research questionnaire. The last chapter was about summary, conclusion and recommendation.

1.9. Research setting

All most all of federal governmental organizations in Ethiopia are located in Addis Ababa. This study was conducted in 10 selected federal organizations in Addis Ababa. There are about 124 federal organizations in Addis Ababa which have a budget source from MoFED. This study assessed the perception of management and staffs from finance, procurement, and human resource departments about an internal audit. This study focused on staffs which have at least 2 years of experience.

CHAPET TWO

LITRATURE REVIEW

This literature review is produced after exhaustive reading of books and other associated text books that are written with regard to the subject matter as well as through reviewing different academic literatures that are thematic and available at the public domain so as to make comprehensible to all who are interested in this discipline. In order to make this literature noteworthy the reviewer gone through rereading of the referred text books and bibliographies those are listed at the reference section. Here, the researcher divided the theme into main categories under the title “Theoretical review and Empirical review”.

2.1 THEORETICAL REVIEW

This part of the research aimed to draw a picture in mind about what theories say about an internal audit. It provides a review on internal audit, IA theories which draw on definition of IA, function and responsibilities of IA and perception of the study area.

2.1.2. DEFINITIONS, FUNCTIONS AND RESPONSIBILITIES OF INTERNAL AUDIT

1. Definition of Internal Audit

According to the institutes of internal auditors (IIA), internal auditing is defined as “an independent, objective assurance, and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process” (Picket, 2002).

This definition recognizes two roles for internal audit to provide an independent assurance service to the board, audit committee and management focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put into place, and to provide advice to management on governance risks and controls, for example, the controls that will be needed when undertaking new business ventures (Picket, 2002).

2. Function of Internal Audit

Internal audit function is to improve any process in the organization that will result in improved revenue and reduced risk. In the case of governmental organization the internal audit provides support on how the management uses the budget properly. Internal auditing projects are assigned internally and prioritized by the level of risk associated with each identified area. Areas of interest are determined by leadership with recommendations from all departmental areas within the company including finance, accounting, operations, and sales and marketing. Risk and audit opportunities are often cyclic arise within the same department or procedure repeatedly over time, often for varying reason. Internal auditors must therefore keep track of past audit procedures and results in order to refer them in future audit opportunities or validation requests (Dayakin, 2006).

Functions of internal audit

Objective and scope

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. Internal auditing shapes them with analyses, recommendation, council, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost the members of the organization assisted by internal auditing in those management and board of directors (Haward, 1992).

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditorsshould review the reliability and integrity of financial and operating information, and the means used to identify measure, classify, and report such information. They should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and determine whether the organization is in compliance. Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets. They should review operations or programs to ascertain whether results are consistent with established objectives and goals whether the operations or programs are being carried out as planned (Haward, 1992). They should serving on task forces and project teams that analyze and develop system operations. They should

appraise the economy and efficiency with which resources are employed. Another responsibility of internal audit is to facilitate self-assessment to help departments identify objectives and evaluate business risks and controls as a means of assisting departments with on-going risk management.

Verification

The internal auditors' activities related to verification involve two areas; the accounting records and reports, and the underlying assets, equities, and operating result. Typical internal audit activities in the area of verification of assets would include counts of cash funds and not deposited receipts, proof of bank reconciliations, confirmation of account receivable by correspondence with customer, comparisons of inventory quantities and comparison of plant asset records with the machinery, equipment and other items in use (Pickett, 2002).

The verification activities of internal auditor are a direct concern of the independent auditor because this form of internal controlling activity adds directly to the creditability of a client's accounting records, thus justifying a reduction in the scope of auditing work performed by independent auditor.

Evaluation

The scope of internal auditing should encompass the following evaluation function. Internal audit should evaluate internal control from the stand point of how well the information which provided by accounting system is adequate and accurate, protection of the organization from loss due to theft, embezzlement, or carelessness control; over all phase of operations. They should evaluate clerical and accounting efficiency from the stand point effectiveness of procedures utilization of space and adequacy of personnel. Internal audit should also evaluate overall performance of various operating departments from the stand point of plan of organization, policies in effect, procedures being followed by individual performance (Pickett, 2002).

Compliance

Policies, procedures, or rules are will have no values unless they are carefully followed in practice. Thus, once the internal auditor has evaluated a given plan of organization and operation, he will endeavour to ascertain whether the planned program is actually being carried out in practice. The techniques range from inquiry and observation to examination of

records and reports prepared and proof of completed work to establish that the work has been properly performed. The compliance activities of internal auditors are particularly important in companies with extensive branch operations (Haward, 1992).

3. Responsibility of Internal Audit

Throughout the world internal auditing is performed in diverse environment and within organization which varies in purpose, size, and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of the standards for the professional practice of internal auditing, therefore, will be governed by the environment in which the internal auditing department carries out its assigned responsibilities. Compliance with the concepts enunciated by the standards for the professional practice of internal auditing is essential before the responsibilities of internal auditors has been meeting. As stated in the code of ethics, members of the institute of internal auditors, Inc. and certified internal auditors shall adopt suitable means to comply with the standards for the professional practice of internal auditing. (Simmons, 2003)

At minimum, internal audit is charged with the following responsibilities. Internal audit develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the executive (audit) committee for review and approval, as well as periodic updates. Internal audit implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by the organizations management and the executive (audit) committee. Internal audit coordinate, and provide support and oversight of all external auditors and regulators. Internal audit assist in the investigation of suspected irregularities or fraudulent activities impacting an organizations and provide necessary quarterly or annual reporting which summarizing outstanding issues related to audit and review activities to the organizations management

Independence

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgements essential to the proper conduct of audits. It is achieved through organization status and objectivity.

The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities. The director of the internal audit department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit report, and appropriate action on audit recommendations. Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not subordinate their judgement on audit matters to that of others.

2.1.2. CODE OF ETHICS

Purpose of code of ethics is to promote an ethical culture in the internal audit profession. (IIA,2013)

By acting with integrity internal auditors establish trust and provide the basis for reliance on their judgement. Internal auditors perform their work honestly, observing the law, while contributing the legitimate and ethical objectives of the organization.

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information;internal auditors make a balanced assessment of all relevant circumstances and are unduly influenced by their own interests or by others, internal auditors avoid activities and relationships that might be seen to undermine their objectivity,internal auditors respect the values and ownership of information they receive and do not disclose information without appropriate authority, unless there is a legal or professional obligation to do so, internal auditors should use information prudently and not for their personal benefit, internal auditors apply the knowledge, skill, and experience needed for their role and They perform their work in accordance with standards.

2.13. THE AUDIT CHARTER

The audit charter sets the agreed role and position of internal auditing in an organization. The charter formally documents the raison of the audit function. It is important that all audit departments both develop and maintain a suitable charter. The institute of internal auditors has issued a statement of responsibilities that covers the role of internal auditing and this document may be used to form the basis of such a charter. (Picket, 2002)

Role of the audit charter constitutes a formal document that should be developed by chief auditor executive and agreed by the top management of the organization. If an audit committee exists then it should be agreed in this forum although the final document should be

signed and dated by the chief executive officer. The audit charter establishes audit's position within the organization and will address several. (Pickett, 2002)

2.1.5. Perception

Perception is our sensory experience of the world around us and involves both the recognition of environmental stimuli and actions in response to these stimuli. Through the perceptual process, we gain information about properties and elements of the environments that are critical to our survival. Perception not only creates our experience of the world around us; it allows us to act within our environment. Perception includes the five senses; touch, sight, taste, smell and hear. It also includes what is known as perception, a set of senses involving the ability to detect changes in body positions and movements. It also involves the cognitive processes required to process information, such as recognizing the face of a friend or detecting a familiar scent.

According to Kreitner and Kinicki (2003), "Perception is a cognitive process that allows a person to interpret and understand the environment around us". This interpretation is a person's view of the environment or the place where we are. According to Matlin and Solso (2005), "perception is a process of using existing knowledge (which is stored in memory) to detect or obtain and interpret stimuli received by sensory organs such as eyes.

According to Nelson and Quick (1997) "social perception is the process of interpreting information about another person", What this definition has clearly highlighted for your attention is that the opinions you form about another person depends on the amount of information available to you and the extent to which you are able to correctly interpret the information you are acquired. In other words; you may be in possession of the same set of information that other people have on a particular situation, person or group but still arrive at different conclusions due to individual differences in the capacity to interpret the information that you all have.

According to Nelson and Quick (1997) there are two types of perception. The first one is positive perception which describes all knowledge (whether or not they know it or not) and responses which are continued with activeness or acceptance and support of the object being perceived. The second one is negative perception which describes all knowledge (whether or not they know it or not) and responses that are not in line with the object being perceived. It will continue with the capacity to reject and oppose the objects that perceived.

Thus, it can be said that good or bad perceptions will always influence a person's decision to take an action. The emergence of a positive or negative perception depends on how the individual describes his knowledge or his assessment of the object being perceived.

2.2. EMPIRICAL REVIEW

Various researches have been conducted on the perception of internal audit. Most of them are conducted outside Ethiopia, but there is a little research which is conducted in this area in our country. The following section highlights some of the previous research papers on the same or similar subject area that the researcher analysed as a part of his assessment of previous empirical evidences.

2.2.1 In Ethiopia

Bayou (2017) in his paper, "Auditors' perception of audit quality in Ethiopia" aimed at examining the perception of auditors on audit quality in Ethiopia. This research used survey as a strategy of inquiries. The result of this research showed that there is a positive relationship of audit firm size, audit competence, industry specialization and auditors' reputation with audit quality. Tight audit time has a negative relationship with audit quality. Respondents are neutral on the relationship of audit fees, audit tenure and provisions of non-audit services with audit quality.

Eyerusalem (2020) in her paper, "determinants of internal audit effectiveness in Ethiopian commercial banks: the perception of internal auditors" conducted to assess the determinants of internal audit effectiveness in Ethiopian commercial banks. The finding of this research showed two variables from the predictors included in this area becomes insignificant for the effectiveness of internal audit are quality of audit work and usage accounting information system, but competency of internal auditor, independency of internal auditors, top management support and organization setting significantly affect internal audit effectiveness regarding on value adding role, increase management performance and organizational performance. The researcher of this study mainly recommended ECBs, to increase effectiveness of internal audit by giving their attention to increase competency of internal auditors in terms of international certification, assuring independency of internal auditors in terms of giving their freedom to do their work independently, the management of ECBs' has to be supportive in terms of staffing enough employees for audit, helping to prepare different training and development programs for audit department, allocating enough budget and preparing standardized procedure against which auditees work to be audited.

Solomon (2018) in his paper, “perception of internal auditors on effectiveness of internal audit service in Ethiopian charities and societies: the case of selected foreign charities (International Non-Governmental organizations) examined the perception of internal auditors on the effectiveness of internal auditor service in Ethiopian charities and societies the case of selected charities (international non-governmental organizations) in Ethiopia. The study focused on internal auditors and supervisors. The study established on understanding of how the internal auditors in the selected charities perceived the effect of the working environment, the independence of internal and technical competency on performance of internal auditors in NGOs. The findings of this study showed the working environment such as management support, availability of working resources and commitment by management contributes for the effectiveness of internal audit functions. The result also showed internal audit independence authority in mind thought, independence in appearance and examining independence contributes for the effectiveness of internal audit. This study concluded internal auditors’ technical competence impact the performance of the audit function and the audit staff needs to have knowledge and skills necessary to accomplish tasks. Finally, this study recommended that internal auditors must be provided with formal audit training course and should not permitted to audit operations which they have undertaken and the internal auditors should also proficient in process modelling software and its link to the organization objective.

2.2.2 Outside Ethiopia

Arrulalan and Anojan (2014) studied to identify internal audit system and its impact on staff’s perception at university of Jaffna in Sri Lanka. The study uses a correlation model to identify the relation among the independent variables (administration system review, control on purchase, control on vehicles uses, system on salary payment, and research grant system) and dependent variables (quality of service, staff satisfaction, and staff commitment). The variables are tested under multiple linear regression model and descriptive analysis. The result of this research indicate there is a positive impact of internal audit system and its reaction on staff perception and there is positive relationship between internal audit system and staff perception. This study found that the contribution of administration system review decrease when the staff perception increased. Quality of service does not indicate any significant impact or correlation with internal audit. This study suggests to make the compliance of rules of internal audit mandatory among the internal audit system Jaffna university.

Shamsuddin et al. (2015) examined the perception of managers on the effectiveness of the internal audit function in an electric utility company, Tanaga National Berhad, Malaysia. This study relates three independent variables such as competence of internal audit, management support, independence and dependent variable (effectiveness of internal audit). This study found that managers have positive perception on the internal audit effectiveness. All the three factors competence, independence and management support showed positive correlation with the effectiveness of internal audit. This study concludes the finding of this study can be used by management in order to better enhance the internal audit function. They may come up with relevant policies and procedures to ensure the effectiveness of the internal audit departments.

Salima et al. (2020) analyzed the effect of employee perceptions on internal audit on employee performance of PT BIO FARM (persero) company, Egypt, with corporate governance as an intervening variable. This study uses path analysis (a combination model of multiple regression models and mediation models), t-test and F-test to test the relation between the three variables; employees perception of internal audit, corporate governance and employee performance. The results of this research concluded that the employees' perceptions of internal audits have a positive and significant effect on corporate governance and employee performance. The result of path analysis in this research shows that the corporate governance variable is not able to become an intervening variable because the value of the indirect effect of employee perceptions on employee performance through corporate governance is smaller than the direct effect of employee perceptions about the internal audit on employee performance.

Tumuhimbise and Kamungish (2018) examine how employees perceive the internal audit role in promoting accountability in public universities of Uganda. This research focuses on the assessments of internal audit function (independent variable) such as internal controls, procedures and practices, and the assessment of accountability (dependent variable) which focuses on transparency and compliancy. It uses a cross sectional survey in a case study design. Based on the perception, this study reveals presence of weak internal audit and in correspondence there is a weak perceived accountability. Regression results confirm that internal audit as a predictor variable positively influences change in accountability. This research confirms there is a weak perceived role of internal audit in promoting accountability. It concludes that public universities need to continuously improve and strengthen the internal

audit function in order to promote accountability. It recommends initiating measures to strengthen the internal audit function and review of internal controls.

Altintas (2010) determine the perception of auditors and managers in turkey on audit quality. It uses survey with auditors and managers of listed companies in the Istanbul stock exchange in order to determine their perception on the audit. It uses statistical method factor like factor analysis and t-test. In this research factors affecting the perception of auditors and managers on audit quality in Turkey were stated as regulations of the professional bodies, competence level of the auditor, reputation of the audit firm, and audit firm having its own working standards. According to the findings of this research, there are significant statistical differences between the perceptions of the auditors and managers regarding the “regulations of the professional bodies”, “competence level of the auditor”, “reputation of the audit firm” and “audit firm having its own working standards”. The results of this study shows auditors consider all the factors except for the “reputation of the audit firm” more important than the managers. The result of this research shows both auditors and managers believe that there is insufficient regulations which are made by professional bodies with regard to the profession of audit. The auditors and managers believe that the “existence of own working standards in the audit firm” has important role in increasing the quality of the audit .it concludes that reputation of audit firm affects the understanding regarding the quality of service it provides.

In the research carried out by Obert and Muyunguma (2014) examine the factors causing negative perception of internal audit and the impact on the performance of the internal audit function. In this study there are some factors which cause negative perception such as auditors’ failure to meet expectation gap, bad reputation of an auditor, the quality of audit staff, level of professional competence, and the absence of independence and objectivity in internal audits.

Millichamp (2002) describes internal audit as an independent appraisal function established by the management of an organization for the review of internal control system as a service to the organization. The above definition shows that the role of internal audit in an organization is, review of internal controls which bring about safeguarding of asset and improve performance. Holt and Dezoolt (2009) emphasized the importance of audit reports. In an experiment containing company background information, summary of accounting results, and numerous governance report options, they find evidence that a descriptive internal audit

report significantly affects non-professional investors' perceptions of a company oversight effectiveness and confidence in financial reporting reliability.

Chambers (2012) posits that myths can tell a lot about how others see the world. Sometimes myths may be accurate but they can also mislead. While each of the following myths might be generally untrue, the fact that these myths are so enduring, this might be an indicator that auditors need to find out how they are perceived in their own organization. He states that some of the myths are that internal auditors are accountants by training, auditors are nit pickers and fault finders, it is best not to tell auditors anything unless they specifically ask and internal audit is the corporate policeman.

Aguilar and Barbadillo (2003) states that companies may engage in strategic behaviour to avoid the receipt of qualified opinion in their audit reports. This behaviour consists of replacing the incumbent auditor by lower quality one. This behaviour is limited by the perception that users of the audit reports may have of the auditor change, because companies will seek to reduce the effect that the auditor switch may have by means of reducing the audit quality in ways least likely to be identified by third parties. In these cases, the probability of obtaining a clean report after report the auditor change is lower for firms which are subjects to a more rigorous monitoring than the rest of the companies.

Sawan and Alzeban (2013) postulate that the internal audit function is inseparably linked with governance given its role within the organization and should therefore be capable of responding to all regulatory requirements. However, the internal audit function is not developed to the same extent in all organizations. In Australia, a large number of listed companies either do not operate an internal or employ only one or two staff for this activity (Goodwin and Kent, 2006). In the United States there is evidence (Maher and Akers, 2003) that chief executive officers do not generally want internal audit involvement in the development of organizational systems. Clearly the influence of senior management is a determining force in the scope of the internal audit function as noted by Sarens and DeBeedle (2006).

Owen (2000) shows that audit need not necessarily be viewed from an essentially negative perspective. He says we should not only be asking what is being achieved in the name of audit but also addressing come very basic matters regarding the type of values that society wishes to prevail. The type benefits achieved through the work of internal audit. Improvements brought about by implementation of audit recommendations.

Management's view is that adopting a strategic view for outsourcing decisions can lead to a number of benefits including reduced costs, increased flexibility, improved innovation and technical development (Padia et al, 2012). This perception is also supported by Chapman and Anderson (2002) who explains that the new definition of internal auditing as given by the institute of internal auditors implies that the internal audit function as an objective activity, does not necessarily have to be established within the organization as the revised definition permits internal audit service to provide by outsiders who in effect acknowledge that quality of internal audit service can now be obtained through outsourcing. This allows for an internal audit to be performed by professionals with an in-depth understanding of the business, culture, systems and processes and provide assurance that the internal controls in place are adequate to mitigate the risks.

Baskerville et al. (2012) contend that for at least three decades, auditors have been severely criticised as a result of failing to meet society's expectations as a result of the audit expectation-performance gap. Their research findings indicate that the audit expectation-performance gap could be narrowed by adopting a tripartite approach as follows:

- i. Ensuring that new issues in the audit arena are widely discussed, and society becomes aware of what is, and is not, feasible for auditors to accomplish;
- ii. Encapsulating in audit standards the responsibilities society expects of auditors which are cost beneficial for auditors to perform; and
- iii. Ensuring auditing standards specify what is required of auditors in fulfilment of their responsibilities and monitoring their performance to ensure the requirements are met. Such measures should align auditor's performance with society's expectations of them, thereby reducing societal criticism and loss of confidence in their work.

Butcher, Herrison and Ross (2013) shows that if clients are satisfied with or have a favourable perception of certain audit quality attributes of their incumbent auditor, they will remain with the auditor, auditor retention is influence by; industry expertise of the audit firm, conduct of audit field work, quality of audit staff and the client's intention to remain their incumbent auditor.

The impact of top management involvement in fraud, corruption and money laundering is that the company will collapse. Such was the case with Enron and WorldCom. The reason is in weak corporate governance. Roussey (2000) says corporate governance is an important

part of the capital market and is becoming more important with the growth of global capital markets and with the significant frauds perpetrated in these markets. Negative perceptions in most cases come from those who stand to benefit if an audit is not done, and when an audit is done they are found wanting. It is caused by the desperation to discredit audit for personal gain.

Loss of confidence in the internal audit function is the impact of internal audit expectation gap not met. When auditors fail to do what society or the work force expects them to do, this will cause a negative perception. For example if fraud is being perpetrated openly in a company but auditors fail to pick it, there will be negative perception about audit. The impact is loss of confidence in the internal audit function.

Another cause for negative perception about internal audit is the absence of independence and objectivity in the internal audit function. This assertion is supported by Goodwin and Yeo (2001) when they argue that the independence and objectivity of internal audit function may be affected by the relationship between internal audit function and the audit committee. The second reason is the extent to which internal audit function is used as a management training ground and as such is staffed by employees who expect to be transferred to line management positions in the future.

2.3. RESEARCH GAP

This chapter has provided a review of the literature on internal audit perception. To what end, it has attempted to arrive at theoretical foundation for the study of internal audit perception and its effect on internal audit function. It also tried to review theoretical foundation on definition of internal audit, responsibility of internal audit, internal audit function, code of ethics, audit charter, and perception.

This chapter also review empirical literature on internal audit perception. It reviews researches on perceptions about internal audit and their effect and their effect on internal audit quality, internal audit function and internal audit service inside Ethiopia and outside Ethiopia. However, most of the literatures highlighted internal and external auditors' perception and their effect on internal audit. It is also maintained that perception about internal audit affects internal audit function rather than staffs and management perception about internal audit. Limited researches were found on staffs and management perception about internal audit outside Ethiopia. To the researcher understanding from the empirical

review, there are no researches on staff and management perception about internal audit inside Ethiopia.

This review has argued that how perceptions about internal audit affects internal audit. According to the literature review, the researcher observes the following gaps. Internal audit perception and its effect on internal audit have not been extensively studied. In other words, to date, there has been relatively little research conducted concerning internal audit perception in Ethiopia. In our country, the limited literatures to date, focus on internal and external auditors' perception about internal audit and does not focus staff and management perceptions about internal audit. As a result, to get the understanding of the global picture of internal audit perceptions seems incomplete. In past decades, limited studies have been conducted on internal audit perceptions in Ethiopia, some researchers' advocated further research and the need for more comprehensive study on the issue of internal audit perceptions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter outlines the methodology which was used in the collection of data and specifies research approach, research design, population and sampling techniques, data collection methods, data analysis method, reliability, validity and ethical consideration.

3.2. Research Approach and Design

3.2.1. Research Approach

There are three alternative research approaches which are qualitative, quantitative and mixed approaches. These approaches are different in terms of their philosophical assumptions as well as techniques they used in data collection, analysis and interpretation. In order to achieve the research objective a quantitative research approach was adopted. Quantitative research approach used statistical data through the use of large scale survey research, using methods such as closed-ended questionnaires and/or structured interviews (Abrham, 2017). This study used quantitative research approach as it converted the responses into scores using likert scale.

3.2.2. Research Design

A descriptive research design is a research design for which the purpose is to produce an accurate representation of persons, events or situations (Saunders et al, 2014). In this regard, several researchers Mansouri et al, 2009, and James and Izien,2014 had employed descriptive research design and this study also employed this technique in this research. The research questions and objectives stated were applicable for this type of study. It also helped to gather several kinds of data related to the subject under this study.

3.3. Population and Sampling

The target population of this study was the management and staffs working under finance, procurement and human resource departments of all federal organizations that have been operating currently in Addis Ababa. There are about 124 federal governmental organizations which have a budget source from Ministry of Finance and Economic Development. This research used 10 federal organizations as a sample.

3.3.1. Sampling Method

The study used simple random sampling in selecting federal organizations and purposive sampling (non-probability sampling technique) method in selecting departments in federal organizations which have direct interaction with internal audit. This study also used simple random sampling techniques in selecting respondents from selected departments. To select samples of the study under considerations simple random sampling as one of sampling techniques (probability sampling technique) was used by researcher regardless of its limitations. This technique has been employed due to its unbiasedness, simple and not costly.

3.3.2. Sample Size

Due to difficulty of covering the entire federal organizations and the variability of the population is small, the researcher taken 10 randomly selected federal organizations, which is selected to be as representative of the remaining 124 organizations. From these organizations top management, finance, human resource and procurement departments were purposively selected. From purposively selected departments, 10 top management, 10 finance head, 10 procurement director, 10 human resource director, 20 senior finance officers, 20 procurement officers and 20 human resource officers were intended to answer the questionnaire randomly.

Table 3.1 Sample organization

No.	Organizations
1.	Ministry of Revenue
2.	Ethiopian Agricultural Authority
3.	Ethiopian Forest Development
4.	Ethiopian Environment Protection Authority
5.	Ethiopian Construction Authority
6.	Ethiopian Policy Studies
7.	Ethiopian Civil Service Commission
8.	Accounting and Auditing Board of Ethiopia
9.	Ethiopian National Theater
10.	Ethiopian Civil Service University

3.4. Data Collection Instrument

To accomplish the study primary data was used and collected from the respondents. This study used survey questionnaires in collecting the primary data. The questionnaires which have the type of questions were distributed to the top management and staffs of finance, human resource and procurement departments by hand at their offices during working hours personally. The instrument included questionnaires in the form of Likert scale type that shows respondents agreement or disagreement by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The instrument consisted of 30 closed ended questions. 100 questionnaires were distributed for respondents and 76 (76%) had been returned.

3.5. Data Analysis Method

After the data are collected, the following activities on data processing have been carried out. The raw data are converted into suitable form for analysis and interpretation. This is achieved through sequence of series activities including editing, coding, entry, and tabulation. Analysis progresses are developed using Microsoft Excel.

The analyzed data had been described and summarized by using descriptive statistics methods by measure of central tendency (mean) values, frequency, percentage, measure of central dispersion (standard deviation).

3.6. Reliability

Reliability is the quality of being trustworthy or performing consistently well. In order to improve the reliability of this study, the researcher builds a clear research design and adopted an appropriate methodology that gives high reliability. Along with the questionnaires that are adopted and modified from the prior author and literature review. Based on the pilot test, improvements made and then after all it was found to be valid and reliable. The data were tested for its reliability using Cronbach's alpha test also performed to further strengthen data reliability for the quantitative component of the study.

3.7. Validity

In order to establish the validity of the study instrument the researcher reviewed prior researches and professional literatures extensively as it showed in the second chapter of this research. The intension of the review was to find a what are the perception of management and staffs about internal audit. Consideration of latest professional standards in adapting the instruments is another attempt to enhance the validity of items in the instruments (Mihret, 2010). Therefore, the researcher is able to develop a theoretical framework reflecting what is perceived about an internal audit and the researcher used synchronized data triangulation strategy which suit for the study.

3.8. Ethical Consideration

To produce effective results from research, risks to the participants should be taken into consideration. Matsuda & Silva (2005) state, the researcher should put certain protections to protect participants. Ensuring the consent of organizations was necessary step in this study as human participants is involved in the questionnaire. Thus, it was considered ethical to formally obtain such permission. In order to get permission and also to increase the confidence of the respondents the researcher asked a recommendation letter from Addis Ababa University, College of Business and Economics, Department of Accounting and Finance.

In order to keep the confidentiality of the data that have been given by respondents, the respondents were not required to write their name and assured that their responses treated confidentially. The purposes of the study disclosed in the introductory part of the questionnaire. Furthermore, the researcher attempted to his best to avoid misleading or deceptive statements in the questionnaire.

After permission granted the questionnaires distributed to voluntary respondents of selected budgetary public sectors. To make the research result fruitful the respondents right to participate or not maintained and nothing processed unethically. As Cooper & Schindler (2006) states participant perception influence the outcome of the research in subtle way; so no one is participated obligatorily. The researcher visited the respondents for follow-up and collection of the completed questionnaires. This procedure is

considered to enhance response rates (Kumar, 1996). To further improve response rates, contact persons assigned in the sampled sectors. Prior studies show this kind of approach facilitates collection of completed questionnaires and improves response rates (Kalbers& Fogarty, 1995).

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter presents the data analysis based on the data collected from the participants and findings in answering the research questions. The objective of this research was to assess what are the perceptions of internal audit by the management and staff in federal organizations. Hence this research was conducted to find out what actions are perceived by management and staffs about internal audit.

4.2. Response Rate

A total of 100 questionnaires were distributed out of which 76 questionnaires were returned and giving response rate of 76%. This response was considerable and representative of the population, this response was good enough and representative of the population and conforms to Mungeda and Munged (2003) stipulation that response rate of 70% and above is excellent.

4.3. Demographic Information

4.3.1 Gender of the Respondent

Results shown in the table below shows that 52.63 % (40) were male while 47.37%(36) were female. From the findings it is evident that both males and females were involved in management, human resource department, finance department, and procurement department. Thus, both genders were significantly represented in the study though the research is not gender sensitive.

Table 4.1 Gender distribution

Gender	Frequency	Percent
Female	36	47.37
Male	40	52.63
Total	76	100

Source: field survey, 2021

4.3.2 Age Group

As requested the respondents to indicate their age category and as indicated in the table below, the findings indicate that (32.9 %) of the respondents were aged between

26 to 30 years, (31.58 %) of the respondents indicated were aged between 31 to 40 years, (26.31 %) of the respondents indicated were aged above 40 and (9.21 %) of the respondents indicated were aged between 20 to 25.

Table 4.2 Age distribution

AGE CATEGORY	FREQUENCY	PERCENTAGE
20 up to 25	7	9.21
26 up to 30	24	31.58
31 up to 40	25	32.9
Above 40	20	26.31
Total	76	100

Source: field survey, 2021

4.3.3 Field of Study, Qualification and Certification

The study requested the respondents to indicate their level of field of study, accordingly as indicated in the table below, (72.37 %) of the respondents have Bachelor's Degree, (22.37 %) have a Master's degree and (5.26 %) have above Master's degree as their highest level of education. According to the finding the respondents have the following fields of study, (35.52 %) of the respondents have accounting and finance background, (21.05 %) of the respondents have management background, (13.16 %) of the respondents have Economics background, (11.84 %) of the respondents have a Business Administration background, (9.21 %) of the respondents have purchasing background, and (9.21 %) of the respondents have other fields of background.

Based on this result, the sample group were well educated. They held a bachelor degree, master's degree and above master's degree in different fields of study.

Table 4.3 Microsoft Excel output for field of study and qualification

Fields of study	frequency	Percentage	Qualification	frequency	Percentage
Accounting	27	35.52	below diploma	0	0
management	16	21.05	Diploma	0	0
Economics	10	13.16	degree (BA, BSC)	55	72.37
Purchasing	7	6.21	Masters (MA, MSC)	17	22.37
business administration	9	11.84	above masters	4	5.26
Others	7	9.21	Total	76	100
Total	76	100			

Source: field survey, 2021

4.3.4. Work Experience

The study also requested respondents to indicate the number of years they had served in any organization. As shown in the table below the study revealed that (34.21 %) of the respondents had above 10 years of experience, (25 %) of the respondents had 5-6 years of experience, (19.74 %) of the respondents had 2-4 years of experience, and (9.21 %) of the respondents had 7-8 years of experience. This implies that the majority of the respondents are seniors and have the knowledge to understand what is done by internal auditors.

Table 4.4 Microsoft Excel output for Work Experience

years of experience	Frequency	Percentage
2 up to 4	15	19.74
5 up to 6	19	25
7 up to 8	7	9.21
9 up to 10	9	11.84
above 10	26	34.21
Total	76	100

Source: field survey, 2021

4.3.5. Current Position in the Organization

As per the instruction available in the questionnaire, the respondents indicate their level of current position in the organization. As indicated in the table below, (32.89 %) of the respondents are senior finance officers, (18.42 %) of the respondents are

senior purchasers, (15.79%) of the respondents are senior human resource officers, (11.84 %) of the respondents are human resource director, (7.9 %) of the respondents are procurement director, (6.58 %) of the respondents are finance head, and (6.58 %) of the respondents are top manager of the organization. The result of the findings shows the sample group has different positions which have direct interaction with internal audit.

Table 4.5 Microsoft Excel output for current position in the Organization

Position	Frequency	Percentage
Manager	5	6.58
Finance head	5	6.58
procurement director	6	7.9
human resource director	9	11.84
senior finance officer	25	32.89
senior human resource officer	12	15.79
senior purchaser	14	18.42
Total	76	

Source: field survey, 2021

4.4. Internal Audit Perceptions

18 questions on the perception of management and staffs about internal audit's independence, competency, and objective and scope were developed and the respondents were requested to indicate to which they agree or disagree. A five point Likert scale was provided ranging from scale 1 up to 5, where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, and 5=Strongly Agree. From the responses mean and standard deviation were used for ease of interpretation and generalization of findings. The findings are clearly illustrated in the preceding presentations.

4.4.1 Perception on Internal Audit Independence

The first section of the questionnaire (Q.B.1-Q.B.6) assesses the perception of management and staffs about internal audit independence with in the sample sectors and the results were summarized as follow.

Q.B.1. There is no expected operational roles or duties other than auditing that bring responsibilities to the members of the audit team.

Q.B.2. Audit reports are presented directly to the top management.

Q.B.3. Internal auditors have the freedom from conditions that threaten the ability to carry out internal audit responsibility in an unbiased manner.

Q.B.4. Internal audit department has free access to all information, departments and employees in the organization that need for audit work.

Q.B.5. Internal auditors are sufficiently immune from any internal pressure to undertake audits and are report findings and recommendations objectively without fear.

Q.B.6. Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects.)

Table 4.5 Perception of internal audit

Independence

Questions	SA	A	N	DA	SDA	MEAN	MEDIAN	STDV
B.1	5	33	14	13	11	3.1053	3	1.2064
B.2	21	32	18	4	1	3.8947	4	0.9177
B.3	23	36	13	3	1	4.0132	4	0.8717
B.4	20	29	14	3	0	4	4	0.7832
B.5	20	29	13	3	1	3.9737	4	0.8481
B.6	17	32	21	4	2	3.7632	4	0.9503

Source: field survey, 2021

Above half of the management and staffs believed that internal auditors are independent while they are performing their function as per the average mean value for six questions is 3.7917. The mean value of the entire questions shows greater than 3. This implies that participants were having a positive perception on internal audit independency in federal organizations. The standard deviation of all the questions, except Q.B.1, in this section was less than 1. It indicates the respondents' perception about independence of internal audit were close to one another.

4.4.2 Perception about internal audit competency

Based on the second section of the questionnaire (Q.B.7-QB.12) which assesses the perception of management and staffs about internal audit competency with in the sample sectors and the results were summarized as follow.

Q.B.7. Internal audit department employees have problem identification and solution skill.

Q.B.8. Internal auditors department have good cooperation with external auditors.

Q.B.9. The internal audit department is good in keeping the confidentiality of the audited departments.

Q.B.10. Internal audit department employees have desired educational qualification of auditing.

Q.B.11. Internal auditors are proficient in problem solving techniques and use of tools.

Q.B.12. Internal auditors are proficient in both management and operation research skills.

Table 4.6 Perception of Internal audit competency

Questions	SA	A	N	DA	SDA	MEAN	MEDIAN	STDV
B.7	6	31	25	9	5	3.3158	3	1.0096
B.8	22	37	10	5	2	3.9747	4	0.9646
B.9	16	38	14	5	3	3.7763	4	0.9879
B.10	19	40	9	3	5	3.8553	4	1.0546
B.11	19	35	17	2	3	3.8553	4	0.962
B.12	13	37	18	3	5	3.6579	4	1.027

Source: field survey, 2021

Above half of the management and staffs believed that internal auditors are competent while they are performing their function as per the average mean value for six questions is 3.7392. The entire questions had a mean response greater than 3.00. This implies that participants were having a positive perception about competency of internal auditors in federal organizations. The standard deviation of Q.B.8, Q.B.9, and Q.B.11 were less than 1.00. It indicates that the respondents' perceptions were close to each other. For Q.B.7, Q.B.10 and Q.B.12 have a standard deviation greater than 1.00, which indicates the respondents' perception were not close to each other.

4.4.3 Perception about internal audit objective and scope

According to the third section of the questionnaire (Q.B.13-Q.B.18) which assesses the perception of management and staffs about the objective and scope of internal audit with in the sample sectors and the results were summarized as follow.

Q.B.13. Internal audit ensures that it adds value to the organization.

Q.B.14. Internal audit improve departments' performance.

Q.B.15. Internal audit improves organizations' operation or performance.

Q.B.16. The organization management gives proper attention to the audit recommendation.

Q.B.17. Internal audit gives recommendation that leads to valued and impactful improvements in governance, risk management and internal control in the organization.

Q.B.18. Internal audit provide assurance, advice and insight to the right people at the right time.

Table 4.7 Perception of Objective and scope

Questions	SA	A	N	DA	SDA	MEAN	MEDIAN	STDV
B.13	13	45	12	5	1	3.8421	4	0.8335
B.14	14	45	10	5	2	3.8421	4	0.8952
B.15	12	39	15	9	1	3.6842	4	0.9268
B.16	18	34	21	1	2	3.8553	4	0.89
B.17	10	47	16	2	1	3.8289	4	0.7373
B.18	13	34	24	4	1	3.7105	4	0.8613

Source, field survey, 2021

Above half of the management and staffs believed that internal auditors are objective while they are performing their function as per the average mean value for six questions is 3.7938. The entire questions had a mean value greater than 3.00. This implies that participants were having a positive perception about the objective and scope of internal audit in federal organization. The standard deviations of all the questions were less than 1.00. It indicates that the respondents' perception were closer each other.

4.5. Reliability analysis

In a Likert-scale questionnaire measuring the consistency or reliability of the questionnaire is essential. Reliability analysis has been employed in prior IA researches those adopt a Likert - scale questionnaire (Mihret, et al., 2010; George, et al., 2015; Tadiwos, 2016). To measure such a reliability analysis Cronbach's Alpha (α) is the most common measure of reliability scale. For reliability analysis value (α) greater than 0.600 is acceptable (Cronbach's, 1951). According to Field, (2009) a reliability analysis whose value (α) is greater than 0.700

very acceptable. Based on Table 4.11 the reliability analysis values for Cronbach's Alpha (α) of this study show that 0.6425 for all six variables. Therefore, the responses generated from all variables in this study were very acceptable (reliable) for data analysis.

Table 4.7 Reliability Statistics

No. of Items	Cronbach's Alpha (α)	Cronbach's Alpha (α) Based on Standardized Items
3	0.6425	0.6415

Source: Field Survey, 2019

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Results and analysis of the study has been provided in the previous chapter. This chapter presents summary of findings, conclusions and recommendations in line with the main issues of the perception of management and staffs about an internal audit independence, competency, and objectivity and scope. The summary of findings, conclusions and recommendations of the results of the analysis are presented as follow.

5.2 Summary of Findings

According to the analysis and interpretation of data done in the previous chapter, the following findings of the research have been discussed as follow.

This study found that respondents agree on there are no expected operational roles or duties other than auditing that bring responsibilities to the members of the audit team, Audit reports are presented directly to the top management, and Internal auditors are sufficiently immune from any internal pressure to undertake audits, they report findings and recommendations objectively without fear and Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects). This finding concur with those of Solomon (2018) who found that internal auditors should segregate from functional and management decision.

This study found that respondents strongly agree on Internal auditors have the freedom from conditions that threaten the ability to carry out internal audit responsibility in an unbiased manner and Internal audit department has free access to all information, departments and employees in the organization that need for audit work.

This study found that respondents agree on internal audit department employees have problem identification and solution skill, internal auditors department have good cooperation with external auditors, the internal audit department is good in keeping the confidentiality of the audited departments, internal audit department employees have desired educational qualification of auditing, internal auditors are proficient in problem solving techniques and

use of tools, and internal auditors are proficient in both management and operation research skills. This finding consistent with those of Eyerusalem (2020) who found that internal auditors' technical competency must base on organization management and operational research skills.

This study also found that respondents agree on internal audit ensures that it adds value to the organization, internal audit improve departments' performance, internal audit improves organizations' operation or performance, the organization management gives proper attention to the audit recommendation, internal audit gives recommendation that leads to valued and impactful improvements in governance, risk management and internal control in the organization, internal audit provide assurance, advice and insight to the right people at the right time.

5.3 Conclusions

The research has been conducted to investigate the perception of management and staffs about internal audits' independence, competency and objectivity. The researcher has reached upon the following conclusions basing on the majority of the findings of the study.

The researcher concluded that the management and staffs perceive positively about internal audits' independence, competency and objectivity. This study concludes that audit reports are presented directly to the top management; internal auditors are sufficiently immune from any internal pressure to undertake audits they report findings and recommendations objectively without fear and Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects.).

This study concluded that internal audit department employees have problem identification and solution skill, internal auditors department have good cooperation with external auditors, the internal audit department is good in keeping the confidentiality of the audited departments, internal audit department employees have desired educational qualification of auditing, internal auditors are proficient in problem solving techniques and use of tools, and internal auditors are proficient in both management and operation research skills.

This study also concluded that internal audit ensures that it adds value to the organization, internal audit improve departments' performance, internal audit improves organizations' operation or performance, the organization management gives proper attention to the audit recommendation, internal audit gives recommendation that leads to valued and impactful improvements in governance, risk management and internal control in the organization, internal audit provide assurance, advice and insight to the right people at the right time.

5.4. Recommendation

Based on the findings of the research the following recommendations were given:

Internal auditors must be independent, competent and objective in order to be perceived positively by the management and staffs. To be perceived positively about their independence internal auditors should be segregated from functional and management decisions, they should have the freedom from conditions that threaten the ability to carry out internal audit responsibility in an unbiased manner, they should have free access to all information, departments and employees in the organization that need for audit work and they should be

sufficiently immune from any internal pressure to undertake audits and are report findings and recommendations objectively without fear.

In order for internal auditors to be perceived positively about their competency, internal auditors should have problem identification and solution skill, good cooperation with external auditors and internal auditors should be good in keeping the confidentiality of the audited departments. Internal auditors should have desired educational qualification of auditing, internal auditors should be proficient in problem solving techniques and use of tools, internal auditors should be proficient in both management and operation research skill.

In order for internal auditors to be perceived positively about their objectivity, internal auditors should ensures that they adds value to the organization, improve departments' performance, improves organizations' operation or performance, gives recommendation that leads to valued and impactful improvements in governance, risk management and internal control in the organization, and provide assurance, advice and insight to the right people at the right time.

5.5 Limitation and suggestion for further study

Even though there are 124 federal organizations in Addis Ababa, Ethiopia, this study assessed only the perception of management and staffs about internal audit who are employed in 10 selected federal organizations were only considered. It also considered finance, human resource and procurement staffs. Therefore, it lacks covering all the staff members of all federal organizations in Addis Ababa, Ethiopia. Furthermore, some respondents were not willing to fill the questionnaire due reasons such as work load at their place of work. Despite the above probable limitations, the researcher made a maximum effort to design the research as properly as possible and to achieve the specified objective.

The researcher suggested that an interested researcher in this area can work cause and effect of perception on an internal audit function by formulating a linear regression model. The researcher suggested that the next researcher to assess the perception of management and staffs other than finance, human resource, and procurement in other federal organizations other than those selected in this study.

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APPENDIX
QUESTIONNAIRE FOR MANAGEMENT AND STAFFS
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear participant:

The aim of this questionnaire is to collect information about internal audit perceptions in the case of federal organizations in Ethiopia for partial fulfillment of master's degree in accounting and finance at Addis Ababa University. The results of the study are expected to contribute in identifying internal audit perceptions in the case of federal organizations in Ethiopia.

The conclusions of the study will be drawn in aggregate terms, without any reference to specific office or individual respondents. Please, do not write your name on the questionnaire.

I would also like to assure you that the information you provided will be treated as a strictly confidential and used for the purpose of this research only.

Your honest and thoughtful response is valuable. Thank you in advance for your support and participation.

With Best Regards: ASHENAFI ALAYU

Mobile: +251 910828404, Email: ashenafialayu@yahoo.com

PART A: GENERAL INFORMATION

1. GENDER: Male Female
2. Age: 20-25 25-30 30-40 Above 40
3. Qualification (Educational background)
- Below Diploma Masters (MA, MSC)
- Diploma Above Masters
- Degree (BA, BSC)
- Certificate _____
4. Field of study on your highest educational level
- Accounting and Finance Purchasing
- Management Business Administration
- Economics
- Others specify _____
5. Your position in the organization
- Manager senior finance officer
- Finance head senior human resource officer
- Procurement director senior purchaser
- Human resource director
6. Your experience in your current position
- 2-4 years 8-10 years
- 4-6 years Above 10 years
- 6-8 years

PART B: Management and employees perception about internal audit

Rate the extent to which you agree or disagree that the following statements best describes your perception about internal audit. Use 5 scale rating whereby; 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree.

Independence of internal auditors		1	2	3	4	5
1.	There are no expected operational roles or duties other than auditing that bring responsibilities to the members of the audit team.					
2.	Audit reports are presented directly to the top management.					
3.	Internal auditors have the freedom from conditions that threaten the ability to carry out internal audit responsibility in an unbiased manner.					
4.	Internal audit department has free access to all information, departments and employees in the organization that need for audit work.					
5.	Internal auditors are sufficiently immune from any internal pressure to undertake audits and are report findings and recommendations objectively without fear.					
6.	Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects.)					
Internal audit competency						

7.	Internal audit department employees have problem identification and solution skill.					
8.	Internal auditors department have good cooperation with external auditors.					
9.	The internal audit department is good in keeping the confidentiality of the audited departments.					
10.	Internal audit department employees have desired educational qualification of auditing.					
11.	Internal auditors are proficient in problem solving techniques and use of tools.					
12.	Internal auditors are proficient in both management and operation research skills.					
Objective and scope						
13.	Internal audit ensures that it adds value to the organization.					
14.	Internal audit improve departments' performance.					
15.	Internal audit improves organizations' operation or performance.					
16.	The organization management gives proper attention to the audit recommendation.					
17.	Internal audit gives recommendation that leads to valued and impactful improvements in governance, risk management and internal control in the organization.					
18.	Internal audit provide assurance, advice and insight to the right people at the right time.					

Please suggest if you have any kind of idea in relation to this topic of internal audit perceptions that may not be addressed in this questionnaire

Thank you for your cooperation!!!