



**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**GRADUATE STUDIES**

**DETERMINANTS OF THE EFFECTIVENESS OF INTERNAL AUDIT  
IN NON-PROFIT ORGANIZATIONS: THE CASE OF SELECTED  
INTERNATIONAL NGOs IN ETHIOPIA**

**BY:**

**MESERET MASRESHA**

**ADVISOR: TAKELE FUFU (Ph.D)**

**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND  
FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

**March 2022**

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## STATEMENT OF DECLARATION

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## **ACKNOWLEDGMENT**

First and Foremost, I would like to acknowledge God for letting me through all the difficulties.

I would like to give my warmest thanks to my supervisor Dr Takele Fufa who made this work possible. His guidance and advice were significant in writing the research paper. I would also like to thank my committee members for letting my defense be an enjoyable moment, and for your brilliant comments and suggestions, thanks to you.

I would also like to give special thanks to my husband, Anteneh Bizuayehu and my family as a whole for their continuous support and understanding when undertaking my research and writing my project. Your prayer for me was what sustained me this far.

Finally, I would like to thank all not mentioned here for the continuous support to complete my M.Sc. degree.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

BOD	Board of Directors
CAE	Chief Audit Executives
CCRDA	Consortium of Christian Relief and Development Association
CSA	Charities and Societies Agency
CSO	Charities and Societies Organization
DV	Dependent Variable
IA	Internal Audit
IAA	Internal Audit Activities
IAE	Internal Audit Effectiveness
IAF	Internal Audit Function
IAI	Internal Auditors Independence
IAQ	Internal Audit Quality
IASC	Internal Audit Staff Competence
IFA	International Federation of Accountants
IIA	Institution of Internal Audit
ISPPIA	International Standards for the Professional Practice of Internal Auditing
NGO	Non-Governmental Organization
INGO	International Non-Governmental Organization
MS	Management Support
SD	Standard Deviation
SPSS	Statistical Package for Social Science
VIF	Variance Inflation Factor

## **ABSTRACT**

*The main aim of this study was to investigate factors affecting the internal audit effectiveness in the International Non-Governmental Organizations in Ethiopia. The study adopted a cross-sectional descripto-explanatory research design whereby the researcher employed questionnaires and interviews for data collection and also a quantitative and qualitative research approach was used to collect and analyze primary data. Primary data was collected through a survey instrument adapted from different business researches and by using purposive and stratified sampling techniques. The survey data were analyzed through descriptive statistics, correlation and multiple regression analysis. The findings of the study indicated that management support, internal auditor's independence, internal audit staff competence, and internal audit quality have positive and significant effect on internal audit effectiveness at 95% confidence level. The study primarily recommended the creation of a comprehensive structure to aid in the recruitment of internal audit personnel. Secondly, the study suggested that International Non-Governmental Organizations embrace technology in their internal audit functions. Finally, the audit process should be conducted independently and objectively, with the IA department filled with highly competent individuals who are consistently trained and developed to conduct successful IA.*

**Key Words:** Internal Audit Effectiveness, Internal Audit Quality, INGOs in Ethiopia.

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

The goal of developing the internal audit function is to strengthen its value-adding position in an organization by anticipating problems and identifying potential hazards (Ahlawat & Lowe, 2004). Each sort of organization, whether public, corporate, or non-profit, should have an internal audit function to achieve its goals. Internal auditing is defined as "an independent, objective assurance and consulting activity focused on providing value and enhancing an organization's operations" by the Institute of Internal Auditors (IIA) (IIA, 2006). Internal audit helps a business achieve its objectives by reviewing and enhancing the effectiveness of risk management, control, and governance systems in a systematic and disciplined manner. Internal auditing should evaluate the adequacy and effectiveness of controls in the areas of governance, operations, and information systems. This should include: (1) financial and operational information that is reliable and accurate; (2) operations that are effective and efficient; (3) asset protection; and (4) compliance with laws, regulations, and contracts (IIA, 2006).

Internal auditing contributes significantly to the achievement of a company's goal and the implementation of strategies to achieve it (Rose & Rose, 2015). Internal audit (IA) is a critical link in the business and financial reporting processes of enterprises, government institutions, and non-profit organizations, according to Nagy and Canker (2002). IA's primary goal is to improve organizational efficiency and effectiveness by providing constructive criticism.

The existence of IA in an organization strengthens internal control systems, ensuring that the organization's objectives are completed within the projected timeframe and at the lowest possible cost. Internal auditing is becoming more important as people become more aware of corporate governance issues and questions about its efficacy in carrying out its responsibilities on a more regular basis (Sani, 2009).

Internal audit methods, according to Bongani (2013), serve to increase reliance on financial reporting, improve operational efficiency and effectiveness, and ensure compliance with regulations and laws. Internal audit systems, according to Mawanda (2008), may not always give total assurance, especially when they are characterized by intrinsic limits that affect the

possibility of accomplishing objectives. NGOs are not excluded from this viewpoint. NGOs face rivalry in receiving cash from donors, according to Abdulkadir (2014). To earn donor trust, NGOs must demonstrate that they have the appropriate control mechanisms and skills while adhering to social and developmental programs. As a result, many non-governmental organizations (NGOs) establish and implement effective internal controls to assist them achieve operational efficiency, goals, safeguard resources, and comply with applicable laws.

A Non-Governmental Organization (NGO) is defined by Ayom (2013) as an organization that is not supported by the government and is not a part of it. NGO's are non-profit organizations that are normally self-governing and independent of governments, and their operations are not for profit. Their main goal is to make sure that resources are used effectively and efficiently to accomplish the desired results. As a result, non-governmental organizations place a high value on internal audit effectiveness.

Internal auditing in the United Kingdom has evolved over the last 30 years from "turn and tick" internal checks to a systems-based approach that verifies the achievement of established objectives and goals, ensures compliance with applicable laws and regulations, and ensures the integrity and reliability of information for cost-effective, efficient, and effective resource utilization while safeguarding assets (Harris, 2004). According to the IIA (2015), due to a range of difficulties across the continent, the IA profession is underutilized in many African countries. Limited awareness of internal audit as a profession and lack of understanding about its contribution to good governance, IA not being able to maximize its value due to limitations on its scope, profile, or influence, in addition to resource constraints in areas where it exists, shortage of qualified internal auditors, limited access to training and other support for internal auditors, and regulation and/or legislation are all contributing factors to the low capacity.

The need for internal audit services in Ghana is increasing, according to IIA (2015), as evidenced by the presence of audit firms that provide co-sourced or outsourced internal audit services. Internal audit functions, on the other hand, confront funding limits and a dearth of employees with internal audit capabilities, so knowledge of the value and purpose of internal audit is limited. Moreover, despite the fact that a number of development agencies support IA capacity building, the number of internal auditors who are IIA members and hold internal audit certifications remains low. Internal auditing is widely recognized in Malawi, and demand for

IA services is increasing, as indicated by the presence of audit firms that offer co-sourced or outsourced internal audit services. Despite this, the country's fraud and corruption index is high, and despite advocacy from development agencies and other national authorities, a scarcity of trained internal auditors has yet to materialize due to a lack of workers with essential IA skills.

NGOs play an important part in Ethiopia's social, political, and economic development, as they do in many African countries. They have a vital role in establishing good governance and democracy, and are thus seen as an important force in a functioning society, in addition to complementing the government in socio-economic development efforts (Taye & Birhanu, 2010).

According to past Ethiopian study, internal audit quality and management support have a significant impact on internal audit effectiveness (Shewamene, 2014). According to Arefayne's (2019) research, internal auditor independence is the only element that determines internal audit effectiveness. However, both researchers concentrated on public and private sector and there is yet a need for a full study on the topic with respect to the NGO sector in Ethiopia. The public and private sectors have different environments in which NGOs operate and are managed. As a result, the researcher investigated the drivers of Internal Audit Effectiveness in the selected Ethiopian international NGOs.

Non-Governmental and civil society players are visible in Ethiopia's overall institutional landscape as organization's. According to the Federal Charities and Societies Agency's (December 2017), Ethiopia has 3,260 charities and society organizations. Furthermore, NBE's analysis reveals that the voluntary sector has mobilized enormous worldwide resources, which has boosted the country's economy tremendously. NGO transfers totaled US\$1.78 billion between 2004 and the first half of 2008. The annual breakdown is more than the earnings from coffee exports (Arefayne, 2019).

## **1.2. Statement of the Problem**

Internal Audit Effectiveness (IAE) is described by Dittenhofer (2001) because the achievement of an activity's goals and objectives using the factor measures provided, whilst Mihret and Yismaw (2007) define IAE because the extent to which an interior audit office can meet its pre-set objectives. When IA provides the required service from an activity, it's best.

Effectiveness in auditing refers to the auditor's capacity to finish an audit without making mistakes, to be able to work when needed, and to be ready to create a correct set of objectives for the organization's success (Karapetrovic & Willborn, 2000).

Internal auditors are employed to improve controls and increase transparency and accountability. Numerous concerns have been made about the management of donor cash and the government's ineffectiveness lack recognizing and preventing misappropriation of these funds. As a result, Ethiopia's government has enacted a number of regulations governing internal audit processes in order to provide assurance on the effective and efficient use of financed resources, such as the Charities and Societies Proclamation No 621/2009, which is the principal law governing CSOs/NGO. Checking project compatibility with the allocation of 70% of the budget to operational costs and 30% to administrative expenditures is one approach of monitoring and evaluation. The Federal Charities and Societies Agency (CSA) issued a draft directive to bring the 70/30 percent formula to life in terms of operational and administrative expenditures, as well as to ensure that all authorized projects adhere to the budget formula. The financial accountability of CSOs/NGOs was clarified in this draft directive. In addition, the CSA has been given the authority to oversee CSO/NGO activities through the inspection of annual reports and audited financial accounts (Abiy, 2011).

Despite the passage of various regulations governing internal audit processes in Ethiopia, such as the Charities and Societies Proclamation No 621/2009 and the Organizations of Civil Societies Proclamation No 1113/2019, theft of funds has devastated Ethiopian international NGOs in recent years. According to recent newspapers, huge sums of money appear to have been lost in Ethiopian foreign NGOs such as CARE Ethiopia (February 2017), Bread for the World (May 2018), and so on (CCRDA, 2021). This raises a worry about the internal audit function's policy and practice in carrying out its responsibilities.

Despite the NGO sector's significant contribution to Ethiopia's economic and social development, and the importance of internal audit as a control tool for all organizations, there are few previous studies that have examined the factors that determine the effectiveness of the Internal Audit Function of NGOs, according to the researcher's knowledge, and most of the research has been conducted on private and public organizations, such as Mihret and Yismaw (2007); Shewamene (2014); Unfortunately, the value of internal auditing and internal controls

is only acknowledged and stressed after abnormalities have been revealed. Following established auditing standards and raising corporate governance knowledge, as well as having effective internal audit functions, would result in a better internal control system and improved internal audit department performance (Solomon, 2018).

Despite the fact that there are many studies on the elements that influence the efficiency of IA in NGOs around the world, there are just handfuls in Ethiopia. As a result, the researcher examined factors impacting the efficiency of internal audit in Ethiopia in order to bridge the aforementioned empirical gap and ameliorate the current challenges faced by the selected INGOs in Ethiopia. Therefore, the researcher attempted to assess the effectiveness of Internal Audit by considering factors such as: management support, internal auditor's independence, internal audit staff competence and internal audit quality. Specifically the study was designed to address the following basic questions:

- i. What effect does management support have on the effectiveness of internal audit in Ethiopia's selected international NGOs?
- ii. What effect does internal auditor independence have on internal audit effectiveness in Ethiopia's selected international NGOs?
- iii. What effect does internal audit staff competency have on internal audit effectiveness in Ethiopia's selected international NGOs?
- iv. What effect does internal audit quality have on internal audit effectiveness in Ethiopia's selected international NGOs?

### **1.3. Objectives of the Study**

#### **1.3.1. General Objective of the Study**

The study's overall goal was to look at the elements that influence the effectiveness of internal audit in non-profit organizations, with a focus on a few foreign NGOs in Ethiopia.

#### **1.3.2. Specific Objectives of the Study**

The specific objectives of the study were: -

- a. To determine the impact of management support on internal audit effectiveness in Ethiopian selected international NGOs.
- b. To see how the independence of the internal auditor affects the effectiveness of internal audit in Ethiopia's selected international NGOs.

- c. To determine the impact of internal audit staff competence have on internal audit effectiveness in Ethiopian selected international NGOs.
- d. To assess the impact of internal audit quality on internal audit effectiveness in Ethiopian selected international NGOs.

#### **1.4. Research Hypothesis**

Following an empirical and theoretical review, which are well detailed under Section 2.3 and 2.4 of chapter two, the following hypothesis were developed to determinants of the effectiveness of Internal Audit in Non-Governmental NGOs in Ethiopia.

##### **Hypothesis – 1**

**H<sub>a1</sub>:** Management support has a positive and significant effect on effectiveness of internal audit.

##### **Hypothesis – 2**

**H<sub>a2</sub>:** Internal auditor's independence has a positive and significant effect on effectiveness of internal audit.

##### **Hypothesis – 3**

**H<sub>a3</sub>:** Internal audit staff competence has a positive and significant effect on effectiveness of internal audit.

##### **Hypothesis – 4**

**H<sub>a4</sub>:** Internal audit quality has a positive and significant effect on effectiveness of internal audit.

#### **1.5. Significance of the Study**

First and foremost, the importance of this research is for the researcher to obtain or obtain an MA in Accounting and Finance, as well as expertise and knowledge in doing research. The findings of this study would also be significant in a variety of ways for the following beneficiaries: First, it will assist chosen international NGOs in Ethiopia in identifying factors that influence the performance of their internal audits and investigating their issues with wisely spending their funds. It will also teach current Ethiopian NGOs on the aspects that determine the efficiency of their internal audits.

Internal auditors can comprehend their role in organizations and the internal aspects that influence their performance. They would be able to comprehend how management assistance, in the form of resource allocation, execution of their recommendations, and ongoing training, affects their ability to perform. They would also be able to see how their autonomy in carrying out their responsibilities helps them be more effective. They'll also be able to see how internal audit quality affects company operations. Management will be able to recognize their part in the elements that limit internal audit effectiveness and find solutions to mitigate these issues.

The policy makers in the government, board of directors and fund raisers were able to find out whether the internal audit function in the international NGOs is being run in accordance with the laws and regulations that have been adopted, as well as some potential problems. In addition, it would be a useful reference for researchers and other persons interested in the area of study. Therefore, it is hoped that, results from this study would have practical use mainly to this area and similar other areas and can serve as a base for any further studies to be conducted in other areas in this line of study.

### **1.6. Scope of the Study**

This study is conducted on selected International NGOs in Ethiopia from January 2021 to September 2021 which all of them found in Addis Ababa, Ethiopia. Conceptually the study focus on four decision variables (i.e., management support, internal auditor's independence, internal audit staff competence and internal audit quality) and effectiveness of internal audit collected from the literatures.

The primary data for the study was collected from individual managers and internal auditors of the selected International NGOs in Ethiopia through a structured questionnaire and interview. The sample respondents were selected from the selected International NGOs in Ethiopia by using non-probability purposive sampling and from probability stratified sampling technique. The researcher employed both quantitative and qualitative approach to deal with the analysis of the data. The data obtained through a structured questionnaire analyzed quantitatively and through interview was analyzed qualitatively. And the survey results were presented through both descriptive and inferential statistics using IBM SPSS version 21 employing frequency, mean, standard deviation as well as correlation and regression results.

Therefore, any of the analysis and finding of this research confined only to the selected case study area.

### **1.7. Limitations of the Study**

There are a number of limitations associated with the research. First, all primary data was obtained from respondents through cross-sectional study using questionnaire and interview so response were based on the respondents perception, thus research findings might have been biased. However these limitations in the study leave future ground for explorations and research on the subject using longitudinal research. Second, the sample selection limit the ability to generalize the finding of the overall population because, the population sampled in this study were only managers and internal auditors of the selected International NGOs in Ethiopia but it should include customers and other stakeholders. So, that it is possible to see the factors determining the effect of internal audit effectiveness from different perspectives. Thirdly, the area coverage of this study was delimited to only the selected International NGOs in Ethiopia. The targeted population numbers for this study is large but the researcher tried to estimate a representative sample size for the purpose of maximizing the credibility of the study.

### **1.8. Organization of the Paper**

The research was divided into five chapters: **chapter one:** incorporated introduction part and focuses on: background of the research, statement of the problem, research objectives, research hypothesis, significance of the study, scope and limitation of the study and organization of the paper. **Chapter two:** incorporated review of literature part and focuses on: theoretical review of internal audit effectiveness and empirical review pertinent to this study. **Chapter three:** incorporated methodology part and focuses on: description of the study area, data type and source, research design, sampling design and sample determination, methods of data analysis and definition and operationalization of variables. **Chapter four:** incorporated presentation, analysis and interpretation of data. And finally **chapter five:** incorporated the summary of findings, conclusions and recommendations.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1. Introduction**

This chapter incorporates the literatures related to internal audit effectiveness and discusses the issues on this constructs related to its development in the world, and in Ethiopian contexts. In addition, this chapter includes literatures related to this study by reviewing theories as well as empirical researches.

### **2.2. Theoretical Review**

Four primary theories concentrating on diverse aspects of internal audit effectiveness were offered in this section. To better grasp the concept of internal audit effectiveness, various theories have been proposed.

#### **2.2.1. Agency Theory**

The Agency hypothesis was created by Jensen & Meckling (1976) to describe the interaction between a company's agents (management) and its owners. Separation of ownership and control, according to Jensen and Meckling (1976), produces conflicts of interest, which leads to agency costs. In pursuit of personal goals, the agent builds his own empire separate from the principal's (Padilla, 2002). The owner devises ways to monitor the management's operations in order to remedy the agency's problem. As a result, one in all the procedures which will be utilized to safeguard the owners' assets from theft and mismanagement is that the internal audit function (Peursem & Pumphrey, 2005).

As a result of the firm's performance expectations, the idea underlines the first conflict of interest that exists between business owners (principal) and managers (agent). The separation of a firm's ownership, control powers, and managerial motive is examined in agency theory. The primary idea of the principle-agent model is that the principal is simply too busy to run the firm, thus an agent is utilized to try and do so (Jensen & Mecklings, 1976). The agency theory explanation is primarily behavioral because enterprises don't adhere to the maximizing principle thanks to conflicting interests of key governing bodies outside of principal-agent control.

The aim incongruence, according to Berle and Means (1932), Jensen and Meckling (1976), and Eisenhard (1989), causes ongoing monitoring of the agent by the principal, which comes at a cost. Management that is well-versed in the firm's operations, according to Fama and Jensen (1983), is prone to focusing on their personal interests at the expense of the principle. When the principal's and agent's aims are conflicting, and it's impossible for the principle to keep track of what the agent is doing, the agency dilemma arises (Eisenhardt, 1989). As a result, the board of directors is in charge of monitoring management initiatives and assisting in the resolution of agency problems.

Internal auditing can be used to eliminate agency problems for the benefit of the organization's stakeholders, according to Endaya and Hanefah (2013). If an organization's internal audit function is effective, it can perform well and vice versa (Endaya & Hanefah, 2013). In this study, the agency theory is significant because it illuminates the challenges that develop in organizations and the need for an effective internal audit role to address conflicts, particularly in international NGOs in Ethiopia. The study is tied to agency theory in that it is primarily used to analyze economic incentives that internal auditors pursue in order to achieve their personal goals, even if they are at odds with the objectives of the organization's owners or organizational interests.

### **2.2.2. Stewardship Theory**

The importance of stewardship theory in describing the internal audit research methodology was established by Donaldson and Davis (1991). The theory's importance stems from the fact that it focuses on identifying scenarios in which the principal's and steward's interests are matched. "A steward preserves and maximizes shareholders wealth through company performance, because the steward's utility functions are maximized," Davis, Schoorman, and Donaldson (1997) define stewardship theory as "a steward preserves and maximizes shareholders wealth through company performance, because the steward's utility functions are maximized." Unlike the Agency theory, the Stewardship theory focuses on senior management's position as stewards, embracing their aims as part of the organization (Donaldson & Davis, 1991). As a result, if the organization performs well, its employees will be motivated to invest their time and energy in their respective areas in order for the organization to succeed (Davis, Allen & Hayes, 2010). The same is true in the public sector; if

audit committees perform well, its internal auditors will perform well as well, resulting in the Internal Audit Function's aim being met.

Auditing emerges as a result of the stewardship principle and stewardship accounting, according to Ebimobowei and Binaebi (2013). When NGOs employ stewardship approaches, they benefit a lot since the theory functions as an accountability mechanism, ensuring that the organization's strategic objectives are met through good monitoring, auditing, and reporting (Cribb, 2006). According to the view, a manager is a person who, via his or her actions, safeguards the resources given to him by the owners (principals) (Cornforth, 2003). The theory regards the manager as a part of the business, and the achievement of an organization is realized through lucrative results, which serve as a driving force for the management. When personnel, such as internal auditors, create close relationships with their organization, a governance model based on stewardship principles is more effective. Internal audit effectiveness can also be ensured by top management within state institutions' stewardship approach, which includes ensuring that internal control measures are in place and that the internal audit unit has enough resources.

The provision and usage of resources within the public sector environment is the stewardship obligation of the governing bodies of such government organizations that suit the management position of an entity (IFA, 2001). Stewardship governance, according to Hernandez (2012), is linked to leadership systems, managerial practices, routines, and procedures. Stewardship theory encompasses systems, procedures, and tools that create successful effects on owners' resources since it is based on the principle of trust.

Internal auditing functions can also play a stewardship role by influencing significant variables that contribute to the performance of the organization. Management would like to provide full support to IAF in terms of suitable financing, implementation of audit results, and so on, in order to maximize their utility function through effective organizational performance. At the same time, management would endeavor to ensure that internal auditors had autonomy so that they can function at their best.

### **2.2.3. Communication Theory**

Quinn and Hargie (2004), Davidson (1991), and Golen (2008), among others, have all confirmed the importance of and necessity for excellent communication skills in all

organizational functions. According to Davidson (1991), all auditors may like learning current communication concepts, and even those who consider themselves to be excellent communicators should work on analyzing, enhancing, and employing their abilities. Subject relies on three core principles: communication is difficult to avoid, communication can be a multifaceted process, and message transmission doesn't always imply message reception.

According to various academics, including the Institute of Internal Auditors (IIA, 2015; Golen, 2008; Hahn, 2008), communication is that the foundation of success in every industry. In keeping with Endaya and Hanefah (2013), inefficient and ineffective communication is a key source of operational conflicts and poor resource management, including service delivery.

Effective communication between internal auditors, internal auditors and organization members, internal auditors and auditees, and internal auditors and audit committee is critical to improving the efficacy of the inner audit function. Internal auditors' effectiveness is set by their qualities, which include objectivity, effective communication, and competency gained through professional care, training, and development. The IIA Standards necessitate the study of effective communication in internal auditing; thus, this research should consider field so as to attain internal audit effectiveness.

As a result, for a good internal function, the concerned parties must have effective communication skills. This emphasizes the importance of viewing the inner audit subject through subject, which is employed to clarify the importance of effective communication between the inner auditor and therefore the auditees, the audit committee and also the internal auditors, and internal auditors with all other stakeholders.

#### **2.2.4. The Knowledge-Based Theory**

The knowledge-based theory of the firm considers knowledge to be the firm's most dear resource. Within a company, employees are the keepers of information, in step with Sveiby (2001), strategy formulation should begin with people's competency. People are considered because the only actual agents in business; all assets, both tangible physical items and tangible relationships, are the results of human activity and, in the end, depend on people for his or her survival. Knowledge, along with traditional resources (labor, capital, and land), is a decisive aspect of a nation's and firm's competitiveness, according to Cole (1998). Since the commercial

age, it has been recognized that knowledge contributes to the creation of national wealth and the development of a strong and competitive country (Boisot, 2002).

Instead of using hierarchical control, knowledge intensive businesses use internal normative systems and social rewards to achieve coordination. These organizations place a premium on dimension. Starbuck (1992) claims that as intense knowledge enterprises expand, they become increasingly bureaucratic. Researchers studying the "productive process" that transforms information into services and products are largely concerned with control and structure issues (Rylander & Peppard, 2004).

In the mid-twentieth century, there was an increase in demand for education and expertise (Gorga & Halberstam, 2007). In order for the Internal Audit Function (IAF) to play a role in establishing successful corporate governance, the department must have the right people on board. According to IIA (2015), the CAE must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to accomplish the authorized plan (2015). As a result, the CAE relies on the Knowledge-based Theory to ensure that the IAF is staffed with highly knowledgeable employees who can effectively operate the unit.

### **2.3. Internal Audit Effectiveness**

Internal auditing should be a self-contained, objective assurance and consulting activity that aids within the expansion and improvement of a company. It also helps a business achieve its objectives by reviewing and enhancing the effectiveness of risk management, control, and governance systems in an exceedingly methodical, disciplined manner (IIA, 2015). Internal auditing is additionally a really important an element of both for-profit and non-profit organizations' business and financial reporting operations (Reynolds, 2000). Internal auditors play a vital role in monitoring a company's risk profile and identifying areas where risk management is improved (Goodwin-Stewart & Kent, 2006).

Internal auditing's goal is to provide constructive criticism to improve organizational efficiency and effectiveness. IA has four main parts: (1) written records verification; (2) policy analysis; (3) evaluation of the logic and completeness of procedures, internal services, and staffing to ensure they are efficient and appropriate for the organization's policies; and (4) reporting recommendations for improvements to management (Eden & Moriah, 1996).

Internal Audit Effectiveness (IAE) is described by Dittenhofer (2001) as the achievement of an activity's goals and objectives through the factor measures provided, whilst Mihret and Yismaw (2007) define IAE as the extent to which an internal audit office can meet its pre-set goals. IA is best when it delivers the intended service from the activity. Effectiveness in auditing refers to the auditor's capacity to end an audit without making mistakes, to be able to work when needed, and to be ready to create an accurate set of objectives for the organization's success (Karapetrovic & Willborn, 2000).

Internal audit effectiveness, keep with Mihret (2011), is about by the peace of mind that management processes are sufficient to identify and monitor important risks, also as validation of the efficient operation of existing control systems. It also includes objective proof that management provides the Board of Management with suitable quality assurance and reliable information, also as credible ways for giving management with feedback on risks and assurance (Dittenhofer, 2001). Internal audits, in step with Ljubisavljevi and Jovanovi (2011), are effective if they create value to an organization's governance, control systems, and risk management processes. Good governance features, per Belay (2007), include public accountability, openness, responsiveness, and effectiveness of values, all of which are lacking in Kenya's public sector, necessitating the need to assess internal audit effectiveness.

According to Arena and Azzone (2009), internal audit functions should add value to companies by efficiently managing internal audit activities, reviewing programs and operations to determine the extent to which results are consistent with the company's goals, developing audit plans, reports, and programs to achieve audit objectives, and determining relevant and sufficient timeframes to achieve audit objectives. A well-conducted internal audit can add value to a corporation.

An efficient internal audit function ensures the integrity and dependability of financial and other operating information, as well as the processes used to identify, measure, classify, and report such information. It also helps an organization achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance processes, risk management, and control, as well as assisting management by making valuable recommendations on weak areas to improve the overall efficiency and effectiveness of the organization's operations. Internal audit effectiveness should be judged by how effective and

efficient internal audit services are given, according to Van Gansberghe (2005). He went on to note that an efficient internal audit conducts a thorough examination of procedures and systems, as well as financial and operational data, in order to make useful recommendations to the company.

### **2.3.1. Factors Affecting Internal Audit Effectiveness**

This section of the paper provides a summary of the numerous researches on the issue conducted by different scholars, as well as their findings on the impact of internal audit effectiveness in various industries today. To focus specifically on the study objectives, the evaluation evaluates characteristics such as management support, internal auditor independence, internal audit staff competency, and internal audit quality. Each review is listed in this part and discussed in detail below, as well as being used to develop the study's hypotheses.

#### **2.3.1.1. Management Support and Internal Audit Effectiveness**

Internal audit effectiveness: an Ethiopian public sector case study, undertaken by Mihret and Yismaw (2007) with the purpose of finding factors influencing the efficacy of internal audit services, discovered that audit quality and management support had a substantial impact on internal audit. They stressed the importance of management being prepared to execute internal audit recommendations because they have far-reaching implications for auditors' attitudes toward enhancing audit quality and strengthening their commitment to pursue a career as an internal auditor. Internal auditors should receive support from top management, the Board of Directors (BOD), and unconditional cooperation from auditees, the organization's primary stakeholders, according to this study. According to the IIA's Standards for Professional Practice of Internal Auditing (1110–Organizational Independence), internal auditors need the board's and senior management's support in order to get auditee cooperation and complete their work without interference (Institute of Internal Auditors, 2015).

According to Abu-Azza (2012), senior management support for internal auditors includes proper recruiting, delivery of education and training programs for IA teams, adequate funding for IA, bonuses and good compensation for IA teams, and acceptance and implementation of IA recommendations. In line with his study, Perceived effectiveness of the internal audit function in Libya: a qualitative study using institutional and Marxist theories, he looked at the

perceived effectiveness of the internal audit function in Libyan public enterprises using institutional theory and Marx's (1978) theory of the circuit of business capital (state-owned).

Internal audit must be provided with adequate resources, such as financing, office space, human resources, and a pleasant working environment, in order to aid audit tasks. The efficiency and efficacy of the internal audit unit are determined by the availability of resources. In his study *Corporate Governance: The Impact on the Role, Position, and Scope of Services of the Internal Audit Function*, Paape (2007) discovered that insufficient resources limit the scope of audit work, which weakens their output. His goal was to research the impact of Corporate Governance reports on the role, position, and scope of services of the Internal Audit Function. Furthermore, the ISPPA has stressed the necessity of management's cooperation in removing any access and financial restrictions that obstruct the internal audit department's ability to work better. The researcher developed the first research hypothesis based on the preceding discussion:

**H<sub>a1</sub>:** Management support has a positive and significant effect on effectiveness of internal audit.

#### **2.3.1.2. Internal Auditors Independence and Internal Audit Effectiveness**

The Institute of Internal Auditors (IIA) defines independence (autonomy) as "the freedom from influences that compromise internal auditors' ability to hold out internal audit activities in an unbiased manner." Standard 1100 states that the Chief auditor must report back to A level within the organization that permits the inner audit function to hold out its responsibilities, while Standard 1110 states that the Chief auditor must report back to tier within the organization that permits the inner audit function to hold out its responsibilities. When the highest audit executive reports functionally to the board, the auditor's independence is effectively achieved (IIA, 2015).

Alzeban and Gwilliam (2014) looked at the function of internal auditing in the Saudi public sector, focusing on the practice and nature of internal auditing in organizations that are audited by the General Audit Bureau. According to the authors, audit autonomy can be achieved through mechanisms such as the freedom of auditor scope determination, freedom of access to records, full access to employees, reporting to appropriately senior levels, strict appointment and removal of CAE, internal audit budget approval only by the board, and prohibition from

performing non-audit work. Read and Rama (2003) discovered that when the inner audit director is freed from any fear of dismissal as a result of the inner audit department's choices and actions, the inner audit function's autonomy and impartiality is strengthened.

Poor controls, which are frequently evident in financial reporting problems, late files, fraud, and diverse suspicious activities, are among the problems linked with a scarcity of independence. Arena and Azzone (2009) discovered that, so as for a corporation to be effective, internal auditors must have a high degree of autonomy and objectivity so as to perform their responsibilities. This was exhausted their study Identifying Organizational Drivers of Internal Audit Effectiveness with the goal of understanding the organizational drivers of internal audit effectiveness in light of recent changes within the "mission" of internal auditing and its central role in corporate governance. In their study, The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations, Cohen and Sayag (2010) argue that autonomy is that the cornerstone of IA effectiveness, which IA effectiveness can't be realized without the independence of Internal Auditors. The following hypotheses are derived from these arguments:

**H<sub>a2</sub>:** Internal auditor's independence has a positive and significant effect on effectiveness of internal audit.

### **2.3.1.3. Internal Audit Staff Competence and Internal Audit Effectiveness**

Internal audit staff competence is essential in promoting good governance and ensuring the efficient use of public funds. Internal auditors must be qualified, knowledgeable, and skilled in order to do their jobs effectively. In their study on Usage of Internal Auditing Standards by Companies in the United States and Selected European Countries, Burnaby (2009) investigated differences in the level of usage and compliance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practices of Internal Auditing (Standards) by organizations. Internal Audit Activities (IAA) within the USA and a sample of European countries with IIA affiliates claimed that internal auditors must have the essential competence to conduct their responsibilities properly so as for IA to be effective. Per Mihret (2010), technical skills and ongoing training are essential for an efficient internal audit job. This can be supported their research; internal audit department characteristics are influenced by the subsequent factors: this can be a classic analysis. Internal audit (IA) processes at some Ethiopian companies were researched to determine if there have been any parameters

linked to the IA department's attributes. The extent of IA activity, IA proficiency, and the quality of IA planning and execution are all stronger in firms where organizational policy authorizing IA is clearly defined, organizational risk exposure is significant, and internal audit's relationship with external audit is strong. The findings demonstrated that in high-risk companies, management values IA's assistance in risk management, resulting in IA's strengthening.

According to empirical research, internal auditors with high skill levels are positively associated with performance, resulting in overall more effective corporate governance. Internal auditor qualification improves the quality of internal audits. Internal auditors with a high degree of qualification can deal effectively with a wide range of issues. Hutchinson and Zain (2009) discovered that there is a significant relationship between internal audit quality, audit committee independence, growth opportunities, and firm performance (ROA) with growth opportunities and audit committee independence in a study on internal audit quality, audit committee independence, growth opportunities, and firm performance in Malaysia.

Internal auditing competency can be determined based on academic level, experience, skill, and training. Arena and Azzone (2009) define competence as "the acquisition of knowledge and professionalism through education, job training, and experience." Internal auditors, like external auditors, must be well-versed in their field and have a high educational level to be effective (Abu-Azza, 2012). Communication, human relations, and information technology are all skills that internal auditors must possess (Abu-Musa, 2008). This is from his research on the impact of information technology on internal auditing. An empirical research of Saudi organizations with the goal of discovering if IT evaluations in Saudi organizations differ depending on organizational factors and evaluation objectives. According to the findings of the study, internal audit staffs need to increase their knowledge and abilities in computerized information systems in order to direct, plan, monitor, and review work.

According to the IIA (2015), internal auditors must have or acquire the skills, knowledge, and other competencies needed to carry out their responsibilities, which include financial activities. Internal auditing success hinges on the competence of the internal auditing team (IIA, 2006). The International Standards for the Professional Practice of Internal Auditing (ISPPA) highlights the necessity of having an internal audit team with the necessary skills, knowledge,

and other competencies to perform their duties (ISPPIA, Standard 1210). In light of this, the researcher developed the third research hypothesis:

**H<sub>a3</sub>:** Internal audit staff competence has a positive and significant effect on effectiveness of internal audit.

#### **2.3.1.4. The Internal Audit Quality and Internal Audit Effectiveness**

Internal audit departments should develop an audit strategy that specifies the department's goals, techniques, and audit work. In keeping with previous enquiry on IA effectiveness, the standard of internal audit planning is an indicator of IA effectiveness (Alzeban & Gwilliam, 2014). In line with Mihretet (2010), work performance is further operationalized into the standard of internal audit planning and execution, in addition because the quality of internal audit reporting and follow-up. The preparations of a strategy plan, annual plans, and programs for specific audit assignments are all considered crucial audit activities (Mihret & Yismaw, 2007). According to ISPPIA, the IA director must develop risk-based plans that are consistent with the organization's goals in order to identify the IA activity's priorities (IIA, 2015).

Internal audit departments must also use time budgets as a management tool for evaluation (Ahmad et al., 2009). According to Arena and Azzone (2009), the timeliness of reports and the trustworthiness of audit findings are used to determine IA effectiveness. Internal audit departments design and oversee auditing assignments using time budgets created in compliance with audit procedures. Furthermore, earlier research has demonstrated the significance of IA programs in monitoring internal auditor work performance (Mihret & Yismaw, 2007). Before they can be implemented, certain IA programs must be approved. The purpose of IA fieldwork is to see how the auditors meant to perform in the first place (Mihret & Yismaw, 2007). Internal auditors must be cautious when collecting evidence and evaluating the auditee status during field operations for IA (Mihret, 2011). Internal auditors should pay close attention to IA fieldwork because it is from this vantage point that IA work is carried out.

Working papers are employed during the auditing process' fieldwork stage, and audit working papers can be used to support audit programs (Ahmad et al., 2009). Working papers can be used to document evidences for a report, provide a reference during the audit process that assists the audit plan, and evaluate IA activity (Ali et al., 2007). An audit report is produced at the end of any audit process; however, unlike the external auditor's report, the content of an

internal audit report is not standardized short-form (Arena & Azzone, 2009). One of the objectives of IA, according to Alzeban and Gwilliam (2014), is to identify the organization's primary shortcomings and make recommendations to address them.

Internal audit quality is one of the criteria that influence internal audit effectiveness, according to Mihret and Yismaw (2007). Internal audit effectiveness is determined by internal audit quality, as well as management support, the organization's environment, and the organization's characteristics, according to findings from Ethiopia's public sector. In another study, Cohen and Sayag (2010) looked at the quality of internal audit work as a component of internal audit effectiveness in 138 Israeli companies. In addition to the aforementioned, Alzeban and Gwilliam (2014) emphasize the importance of internal audit quality to internal audit effectiveness. The fourth research hypothesis is created as follows based on the prior discussion:

**H<sub>a4</sub>:** Internal audit quality has a positive and significant effect on effectiveness of internal audit.

## **2.4. Empirical Review**

Many scholars have undertaken studies on the factors that influence internal audit effectiveness. Several researchers analyzed the literature on the primary elements that determine the efficacy of internal audit in international NGOs in Ethiopia, including management support, internal auditor independence, internal audit staff competency, and internal audit quality, for the goals of this study.

According to Night's (2019), "Factors Affecting Internal Audit Effectiveness in Semi-Autonomous Government Agencies within the Ministry of Environment and Forestry in Kenya". The effectiveness of internal audit was investigated in terms of management support, auditor autonomy, internal audit staff competency, and therefore the audit committee's role. Agency theory, stewardship theory, study, and knowledge-based theory were wont to construct the study's theoretical framework. To gather primary data, the study used a descriptive research approach and questionnaires. A sample size of senior managers, middle level managers, supervisors, and audit assistants was chosen for this investigation. The data was analyzed using SPSS Version 20 software, which contains descriptive and inferential statistics. Management support, internal audit staff competency, auditor autonomy, and audit committee involvement

all had a positive and significant relationship with internal audit effectiveness, according to the study's findings. The researcher advocated for the creation of a comprehensive framework to aid in the recruitment of internal audit employees, the use of technology in government agencies' internal audit functions, and the construction of a monitoring and evaluation system to evaluate internal auditors' performance.

Ahmad et al. (2009) used open-ended questionnaires directed at public sector employees performing IA tasks from various government agencies in Malaysia to evaluate the elements that could lead to IA effectiveness. The challenges related with the IA function and critical factors that led to IA effectiveness were posed as open-ended questions. Internal audit quality, cooperation of internal auditors, top management support, enough resources, and engagement with the audit committee were identified as the characteristics that are important for internal audits to be effective, according to the survey, which received 99 percent of replies. The study's basic and descriptive style, on the other hand, fell short of fully understanding the relationship between individual criteria and IA effectiveness.

Cohen and Sayag (2010) conducted an exploratory study to determine the factors that contributed to IA effectiveness and developed a scale for all independent variables (public vs. private sector, audit quality, management support, internal auditor proficiency, organizational independence, and career advancement) as well as a dependent variable (IA effectiveness). The effectiveness of IA was measured using a total of 37 items that were subjected to exploratory factor assessments, with three interpretable factors (i.e. audit quality, internal auditee evaluation and the added contribution of IA towards the organization). The study found that all of the scales' psychometric qualities were acceptable after gathering and evaluating data from 108 Israeli organizations. Only top management support, audit work quality, and organizational independence were positively associated with IA effectiveness, according to the regression analysis.

Drogalas et al. (2015) looked at the unique characteristics that influence the efficacy of internal auditing in the Greek company environment. A mailed survey of 240 companies listed on the Athens Stock Exchange was used to acquire empirical evidence. Market segments were created from this demographic. Companies that are under surveillance, suspended, or deleted, as well as companies with a low dispersion, were omitted. Factor analysis and regression analysis are

used to visualize the collected data. Internal audit quality, internal audit team expertise, internal audit independence, and management support are the most critical predictors of internal audit effectiveness, according to the research. Internal audit independence is the most significant characteristic of our approach, since it is the foundation of internal audit effectiveness, according to the findings. Finally, the study reveals that internal audit is crucial for Greek companies.

Hailemariam (2014) conducted study on the Ethiopian federal government, concentrating on 15 offices that were purposefully chosen. The impacts of the correlation analysis are evaluated using descriptive statistics in this study. Management support, the existence of appropriate and skilled internal audit specialists, and the availability of an approved internal audit charter all contributed considerably and favorably to the efficacy of internal audit in the public sector, according to the findings. Furthermore, while management's perception of IA value and internal auditors' organizational independence were both favorably related to the IAE, their contribution to the IAE was not statistically significant, according to Hailemariam (2014).

At a study on factors affecting internal audit performance in Commercial Bank of Ethiopia Addis Ababa Branch Offices, Medhanit (2016) chose 15 Grade 4 branch offices to represent all other branches. The census method was used as a sample approach, and questionnaires were used to collect primary data from branch office management teams and internal auditors. The gathered data was quantitatively assessed using descriptive statistics, Pearson's correlation, and linear regression analysis. Auditor competency, organizational independence, managerial support, and the bank's organizational setup were all independent variables. The study's findings revealed a statistically negligible and negative link between auditor competency, management support, and internal audit effectiveness. Furthermore, the organizational setting has a weak positive and statistically insignificant link with the effectiveness of internal auditing. However, only organizational independence has a high positive and substantial link with internal audit effectiveness, according to the study. The researcher advised the CBE to ensure that internal auditors have regular and direct working relationships with the head of the internal audit committee, general managers, and management team, as well as unrestricted access to financial data.

Mihret and Yismaw (2007) conducted a case study titled "Internal audit effectiveness on a large public higher educational institution in Ethiopia". Internal audit quality, management support, organizational setting, and auditee characteristics are all thought to influence internal audit effectiveness. Using a model derived from the four factors listed above, the study looked into the internal audit service of significant public sector higher educational institutions. The study indicated that only the quality of IA and management support had a major influence on IA efficacy, based on primary data obtained from audit employees and an interview with the IA director using a case study technique. Simultaneously, neither the organizational setting nor the auditor characteristics had a significant impact on IA effectiveness. The report also emphasized the need for the audit office to improve the technical proficiency of its audit workers in order to improve audit effectiveness while lowering staff turnover.

Competence of IA teams, quality of IA, and management support were strong but not significantly affect the effectiveness of internal audit in terms of value adding role, enhance department and organizational performance, according to Arefayne (2019) in his thesis "Factors affecting internal audit effectiveness in the case study of Ethiopian insurance companies." Internal audit effectiveness in Ethiopian insurance businesses, on the other hand, is solely determined by IA independence. The researcher proposed that the relevant regulatory body focus more on strategies to ensure internal auditors' organizational independence, as well as build transparent and well-organized techniques. Additionally, to ensure effective functioning, the Audit Committee's audit approach must be updated to reflect current global trends in order to benefit from advancements in internal audit standards, as well as the approval and implementation of internal audit charters and audit manuals in each insurance company.

Abdu (2017) provided the results of his case study by comparing them to key internal audit standards in his essay "Evaluation of effectiveness of internal auditing service in the instance of Southern public regional bureaus, Ethiopia." The goal of the study was to see how major internal audit standards are applied in the internal audit departments of selected government offices in 10 Southern public regional bureaus in Ethiopia, taking into account risk management practices, the level of independence and objectivity of internal auditing, the scope of audit work, and the internal audit department's reporting and follow-up process. To achieve this goal, questionnaires and interviews were used to collect both primary and secondary data, which was then analyzed using the most relevant methodologies, such as frequency tables,

percentages, and the chi-squared test. According to Abdu (2017), the scope of internal audit services should be expanded to include performance audits with appropriate risk analysis; technical proficiency of internal audit staff should be increased and staff turnover should be minimized; and proper relationships with key stakeholders should be established by raising awareness of internal audit services, as internal audit services can add value to the overall success of the organization. Also, establishing an audit committee; amending the internal audit department's reporting structure to allow adequate independence for internal auditors; implementing internal and external audit quality assurance and improvement programs; and removing other audit-related impediments in the organizations under investigation.

Solomon (2018) conducted a study titled "Perceptions of Internal Auditors on the Effectiveness of Internal Audit Service in Ethiopian Charities and Societies: the Case of Selected Foreign Charities" in addition to the research on factors affecting Internal Audit Effectiveness in Ethiopia's public and private sectors. The goal of this study is to determine internal auditors' perceptions of the factors that contribute to the internal audit function's effective performance. He conducted a survey study on ten international charitable organizations and found that the working environment, such as management support, availability of working resources, and management commitment, all contribute to the performance of the internal audit function. Internal audit independence and authority in mind thought, independence in appearance, and evaluating independence all contribute to Internal Audit effectiveness, according to the study. Internal auditors' technical competence has an impact on the function's performance, according to the study, and audit professionals must have the knowledge and skills needed to complete jobs. Internal auditors should be provided with proper audit training and should not be allowed to audit activities that they have conducted, according to the study. Internal auditors should also be knowledgeable in process modeling software and its relationship to the organization's overall goal.

Overall, past study publications focused on private service institutions and government, according to an examination of previous studies. The findings of previous research papers on Internal Audit Activities of various sample institutions can be summarized as follows: those institutions have quality audit problems, independent of audit staffs, and do not comply with the International Professional Practices Framework (IPPF), nor do they have adequate management support.

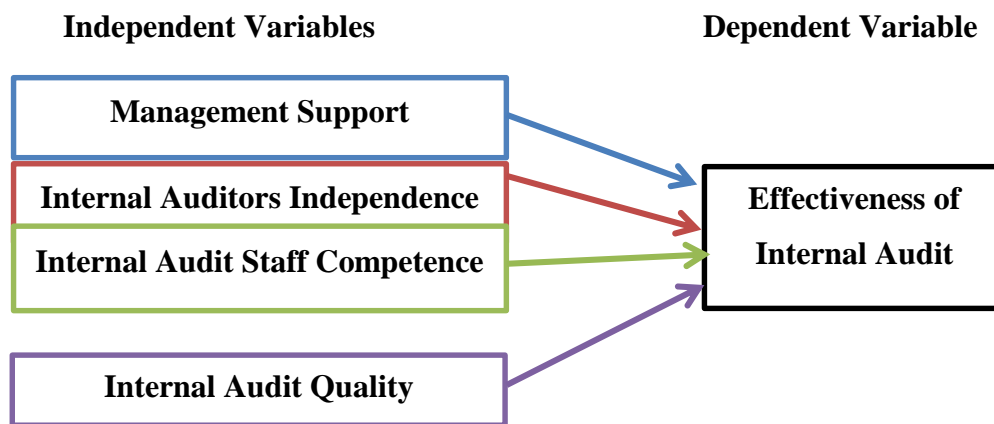
## 2.5. Summary and Research Gap

This chapter has offered a review of the literature on the effectiveness of internal auditing. It has sought to achieve this goal by attempting to develop a theoretical foundation for the research of IA efficacy. In addition, the role of internal auditing was investigated, as well as the efficacy of internal auditing in safeguarding resources.

According to this study, the dynamics in an internal audit context determine internal audit efficacy. It also claims that competent internal auditing can help an organization achieve its objectives. Based on the literature review, the researcher discovers gaps in the literature. Internal auditors have never been studied before in terms of their role or effectiveness. There is also a paucity of literature that focuses solely on private and public companies. Some Ethiopian academics who researched the effectiveness of IAs advocated for greater research and a more thorough examination of the topic. Furthermore, there have been essentially no studies on the usefulness of IA on INGOs in Ethiopia.

## 2.6. Conceptual Framework of the Study

A conceptual framework is a diagram that shows how the variables under consideration are likely to be related (Smyth, 2004). It's a set of concepts or a framework that's used in a given field of study. Figure 2.1 depicts the relationship between the variables under examination.



**Figure 2.1: Conceptual Framework of the Study**

*Source: Adapted and Modified from Huong (2018).*

# **CHAPTER THREE**

## **RESEARCH DESIGN AND METHODOLOGY**

### **3.1. Introduction**

This chapter focuses on elaborating the methodologies adopted by the researcher to attain its general and specific objectives. The chapter is subdivided as: research design, data type and sources, target population of the study, sample design and sampling techniques, method of data collection, method of data analysis and operationalization of the variables under the study.

### **3.2. Research Design**

This study was a descripto-explanatory study design type. The design is preferred for it is fact finding in the capacity of establishing the truth. Quantitative and qualitative research approach was used since the expected information from the field data collection is both quantitative (i.e., questionnaires) and qualitative (i.e., interviews) data and the factual elements are presented using descriptive and inferential statistics.

The researcher wants to pursue the research using survey strategy as it is usually associated with the deductive approach. It is a popular and common strategy in business research and is most frequently used to answer who, what, where, how much and how many questions. It therefore tends to be used for descriptive research. Surveys are popular as they allow the collection of a large amount of data from a sizeable population in a highly economical way. Often obtained by using a questionnaire administered to a sample, these data are standardized, allowing easy comparison. In addition, the survey strategy is perceived as both comparatively easy to explain and to understand.

Based on time horizon, the research design can be longitudinal or cross sectional. In this case, one sample of a population can be taken and studied at a particular time as in a single cross sectional study or two or more samples of a target population could be studied once as in multiple cross sectional study (Easterby Smith et al., 2008). On the other hand it is longitudinal where a particular phenomenon is studied at different period of time. In this study, a cross sectional study is used because data was collected from a cross section managers and internal auditors of the INGOs once and not for different periods of time.

### **3.3. Data Type and Source**

The primary data for the purpose of this study were gathered from managers and internal auditors of the international NGOs through a structured questionnaire in order to assess factors determining effectiveness of internal audit in the study area. Secondary data are also gathered to assess the existing findings from reports, manuals, internal publications and books which help the researcher to gather theories and principles related to the topic of the research. The researcher employed survey research strategy because it is most useful to think of survey research by emphasizing that it is a structured approach to data collection and analysis and that it relies on a particular logic of analysis.

### **3.4. Target Population of the Study**

The complete set of individuals, events, or subjects with common features is referred to as the study population, whereas the target population is the population of interest from which the researcher wishes to draw statistical conclusions (Mugenda & Mugenda, 2003). The total populations of the study were middle level managers-key and internal auditors working in 104 International NGOs located in Addis Ababa and that are members of the Consortium of Christian Relief and Development Association (CCRDA) which is an umbrella organization for NGOs in Ethiopia. The International NGOs targeted in this study work in relief, rehabilitation and poverty alleviation programs. The researcher selected 20 international NGOs from 104 INGOs as a target population. The selection criteria are based on their budget size, coverage area, years of experience in the country and also availability of Internal Audit Department in their organizational structures (CCRDA, 2020). The selected 20 international NGOs have 180 managers and 130 internal auditors and considered as a target population of the study.

### **3.5. Sample Design and Sampling Technique**

In survey research, a sample is a group of elements collected from a broader population (Lavrakas, 2008), whereas Kothari (2004) defines a sample as a group of units selected from the universe to represent it. The researcher selected 20 international NGOs from 104 INGOs by using purposive sampling techniques to select appropriate sample from the population or people who are directly involved in the activities of internal audit. The selection criteria are based on their budget size, coverage area, years of experience in the country and also

availability of Internal Audit Department in their organizational structures. The selected 20 international NGOs have 180 middle level managers and 130 internal auditors and considered as a sample size (CCRDA, 2021).

The researcher used stratified sampling technique to determine the appropriate sample size from each of the selected departments of INGOs. A stratified random sampling technique is preferred because it is used to assist in minimizing bias when dealing with those populations who are heterogeneous in nature. In this case, the first population, Managers have a unique roles and responsibilities as compared to the Internal Auditors, the other population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006), stratified random sampling technique increases the probability that the final sample will be representative in terms of the stratified groups. Therefore, two strata's are created, these are: stratum 1 = managers and stratum 2 = internal auditors. Managers are included in this research for two reasons, primarily manager's role is critical to examine the effectiveness of internal audit. Secondly, the inclusion of managers provide manager's perspective on the same issue hence increasing data quality of the research. In each stratum, a proportionate sampling technique was used to choose the participants, ensuring that everyone had an equal chance of being chosen. According to Mugenda & Mugenda (2003), in a study with less than 10,000 units, a sample size of between 10% and 30% is a good representation of the target population. As a result, a sample size of 30% of the target population was chosen in this study, as follows: managers ( $180 \times 0.3$ ) and internal auditors ( $130 \times 0.3$ ). Therefore, the sample size for this study was 54 managers, 39 internal auditors and a total of 93 employees were selected as a representative samples. The population and sample size of the proposed study are summarized in Table 3.1.

After identifying the sample size using the above equation the researcher allocated the estimated sample size to each stratum in the study to maximize the predictive power of the sample size. One method is proportional allocation. Thus the proportional allocation is done using the Kothari (2004) formula as follows:

**Table 3.1: Sample Size Determination for each Stratum**

<b>Types of Employees in Each Strata</b>	<b>Total Number of Population in each Strata</b>	<b>Sample Size (30%)</b>
Managers	180	54
Internal Auditors	130	39
<b>Total</b>	<b>310</b>	<b>93</b>

*Source: CCRDA, (2021)*

As shown in the above Table 3.1 there were 93 respondents from the international NGO's in Ethiopia or managers and internal auditors are randomly selected as sample respondents. From these 93 respondents 10 were selected for interview purposively.

### **3.6. Methods of Data Collection**

#### **3.6.1. Questionnaires**

Self-administered questionnaires were the main data collection instrument used in this study. Most of the questions in the questionnaire were developed from the review of related literature and composed of statements addressing each of the study variables. The questionnaires were distributed to 93 selected respondents of international NGOs in Addis Ababa. The questionnaires contain close-ended questions, and were translated into the Amharic language to get the required primary data from respondents. A close-ended questions were preferred because it makes ease for the respondents to respond. In order to make it easier for respondents to complete the survey, a five-point Likert scale was included in the questionnaire, which asked them to rate their level of agreement with the following ratings: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1) are the five levels of agreement.

The questionnaires that were distributed to the respondents contains a total of 66 questions and were organized in to three parts; Part I of the questionnaire contains demographic characteristics of the respondents (i.e., gender, age, level of educations, level of management and experience), while Part II contains questions related to factors determining effectiveness of internal audit (i.e., management support, internal auditors independence, internal audit staff competence and internal audit quality). Finally Part III contains questions related to effectiveness of internal audit.

### **3.6.2. Interview**

To support the data obtained through questionnaires the researcher used interview guides to gather information from respondents purposively selected from managers and internal auditors of the study area. The researcher conducted ten (10) face-to-face interviews with the international NGOs in Addis Ababa respondents who were selected through purposive sampling. All participants who are willing to participate in the interview were selected and then the interview sessions were conducted in Amharic language, and then translated to English. The interview conversations took place were recorded, through brief memo-taking during conversation and summarizing the conversations immediately after the conversation have been completed. The interview was used to triangulate the result of the descriptive statistics study.

### **3.7. Method of Data Analysis**

To analyze factors determining effectiveness of internal audit in international NGOs in Ethiopia, the questionnaires were checked for completeness and consistency of information at the end of every field data collection day and before storage. The analysis is done using IBM Statistical Package for Social Science (SPSS) software version 21. The psychometric properties of the constructs were tested by evaluating their reliability and validity values before doing any analysis. The data was tabulated by making logical interpretation, conclusion and recommendation. Descriptive and inferential statistics (i.e. frequency, mean, and standard deviation as well as correlation and regression results) were computed for presenting and analyzing the data.

#### **3.7.1. Reliability and Validity Analysis**

Prior to any of statistical analysis the reliability and validity of the data must be checked. As stated by Hair et al. (2010), reliability indicates the extents to which a variables or set of variables is consistent in what it is intended to measure. Reliability analysis will be used to measure the consistency of a questionnaire. Although there are different methods of reliability test, for this study Cronbach's alpha was considered to be suitable because it is the most common measure of reliability. As described by Nunnally (1978), the values of Cronbach's alpha with a minimum level of 0.7 are good.

The validity of a scale relates to how well it measures what it claims to measure; unfortunately, there is no one clear cut indicator of scale's validity and the validation of a scale involve the collection of empirical evidence concerning its use (Hair et al., 2010). The researcher checked the content validity which refers to the adequacy with which a measure or scale has sampled from the intended universe or domain of content. Content validity of the questionnaires was confirmed by extensive review of previous literature on the factors determining effectiveness of internal audit.

### **3.7.2. Descriptive Statistics Analysis**

Descriptive analysis is used to reduce the demographic information of the respondents like gender, age, educational level, level of management, work experience and others. Also, factors determining effectiveness of internal audit dimensions in to a summary format by tabulation, frequency, percentage and measure of central tendency (mean and standard deviation). The reason for using descriptive statistics were used to compare these different factors one another used in this study and also to see the extent or degree of practices of Management Support, Internal Auditors Independence, Internal Audit Staff Competence and Internal Audit Quality have an effect on effectiveness of internal audit.

### **3.7.3. Inferential Statistics Analysis**

Hair et al. (2010) proposed that before any data analysis is performed, the assumptions correlating the size of the sample, scales of variables, multivariate normal distribution and outliers, and their multicollinearity should be checked first (Lee et al., 2010).

#### **3.7.3.1. Pearson Correlation Analysis**

The relationships between the independent variables dimensions (i.e., Management Support, Internal Auditors Independence, Internal Audit Staff Competence, and Internal Audit Quality) and internal audit effectiveness were determined using Pearson's coefficient of correlation or measure of associations during this study. The value of coefficient of correlation, a statistical measure of association between two variables, ranges from  $r = +1.0$  for a perfect positive correlation to  $r = -1.0$  for a perfect negative correlation. No correlation is indicated for  $r = 0$ . The correlation coefficient indicates the strength of the relationships of two variables and the direction of that relationship. As "r" approaches to 0 on either side there is a weak relationship between the dependent variable and independent variable (Hair et al., 2010).

### 3.7.3.2. Multiple Regression Analysis

In multiple linear regression, it is assumed that there is a linear relation between a variable Y (dependent variable) and K independent variables  $X_j$  ( $j = 1, 2, \dots, K$ ). It is a suitable method of analysis when the determination of the impact of two or more independent variables in a dependent variable is desired (Hair et al., 2010). The following multiple linear regression model was used to investigate factors determining the effectiveness of internal audit (i.e., Management Support, Internal Auditors Independence, Internal Audit Staff Competence, and Internal Audit Quality) on the effectiveness of internal audit of the selected INGOs in Ethiopia. The specified model was as follows:

$$IAE = \beta_0 + \beta_1(MS) + \beta_2(IAI) + \beta_3(IASC) + \beta_4(IAQ) + \varepsilon$$

**Where:**

IAE = Internal Audit Effectiveness

$\beta_0$  = Constant

$\beta_1, \beta_2 \dots \beta_4$  = Slope (Regression Coefficients)

MS = Management Support

IAI = Internal Auditors Independence

IASC = Internal Audit Staff Competence

IAQ = Internal Audit Quality

$\varepsilon$  = is the total error of prediction (residual)

However, before running this model, it is necessary to verify compliance with certain assumptions associated with linear regression models in order to check the model is valid. These are:

#### **Sample Size and Independence of Observations**

The first assumption is related to the sample size and independence of observations. The issue at stake here is generalizability. That is, with small samples you may obtain a result that does not generalize (cannot be repeated) with other samples. If the results do not generalize to other samples, then they are of little scientific value. So, how many cases or subjects that are need? Different authors tend to give different guidelines concerning the number of cases required for multiple regression. Tabachanick and Fidell (2007) give a formula for calculating sample size requirements, taking into account the number of independent variables that you wish to use:  $N > 50 + 8m$  (where  $m$  = number of independent variables), because the researcher have four

independent variables, the study need at least 82 cases but in this case there are 93 cases. The independence of observations that were guaranteed, to the extent that the sample consisted of 93 questionnaires were answered by 93 different respondents.

### **Checking for Outliers**

Multiple regression is very sensitive to outliers (very high or very low scores). Checking for extreme scores is the second assumption and should be part of the initial data screening process. It is going to be done for all the variables, both dependent and independent, that would be used in the regression analysis. Outliers can either be deleted from the data set or, alternatively, give a score for that variable that is high, but not too different from the remaining cluster of scores. Outliers can be identified from the standardized residual plot that can be requested or by looking at the values of Skewness and Kurtosis which should be between -1 and 1 (Hair et al., 2010).

### **Homoscedasticity Test**

The third assumption concerns about homoscedasticity of residuals. Residuals are the differences between the obtained and the predicted dependent variable (DV) scores. The residuals must have a homogeneous variance around a null value average, and the value of residuals must be constant throughout the observation interval. This assumption was verified by observation of residuals scatterplots charts for the model, and if there is lack of pattern indicates equal variances. Homoscedasticity or simply the variance of the residuals about the predicted dependent variable scores should be the same for all predicted scores (Hair et al., 2010).

### **Normality Test**

The fourth assumption refers to the normal distribution of residuals. The observation of the normal distribution of residuals chart concluded that the errors are normally distributed for the model. The values fall along the diagonal without substantial or systematic deviations, which indicates a normal distribution of errors or simply the residuals should be normally distributed about the predicted DV scores or simply the distribution mean should be 0 and standard deviation should be 1 (Hair et al., 2010).

### **Linearity Test**

The Linearity assumption specified that the residuals should have a straight-line relationship with predicted DV scores or the small circles are close to the diagonal line (Hair et al., 2010).

### **Multicollinearity Test**

The sixth assumption is the existence of multicollinearity, all the independent variables were checked for the existence of multicollinearity (i.e. Multicollinearity exists when there is a strong correlation between two or more independent or predictor variables in a regression model). To test whether there is multicollinearity the simplest diagnostic is to use the correlation coefficients, extreme collinearity being represented by a correlation coefficient of 1. The rule of thumb is that the presence of high correlations (generally 0.90 and above) indicates substantial collinearity (Hair *et al.* 2010). Other common measures include the tolerance value and the Variance Inflation Factor (VIF). Hair *et al.* (2010) recommend that a very small tolerance value (0.10 or below) or a large VIF value (10 or above) indicates high collinearity. If there is high collinearity between the independent variables, the researcher will exclude one of the variables. After checking that there is no high collinearity between the independent variables, the researcher is going to analyze each of the independent variables with the dependent variable to know their individual effects they have on the dependent variable. The coefficient of determination ( $R^2$ ) indicates how much of the total variance in the dependent variable can be explained by knowing the independent variable's value. The coefficient of determination ( $R^2$ ) ranges in value from 0 (when the estimated regression equation have none of variation on the dependent variable) to 1 (when all point lie on regression line) i.e.  $0 \leq R^2 \leq 1$ .

Multiple linear regression analysis was performed with SPSS software using the Standard Multiple Regression method and the regression analysis is used to test the proposed hypotheses.

### **3.8. Definition and Operationalization of Variables**

There are two major variables under this study. These are the dependent and independent/explanatory variables. The dependent variable is effectiveness of internal audit and the independent/explanatory variables are factors determining effectiveness of internal audit

(Management Support, Internal Auditors Independence, Internal Audit Staff Competence and Internal Audit Quality) in the selected INGOs in Ethiopia.

### **3.8.1. Dependent Variable**

**Internal audit effectiveness** is defined by Dittenhofer (2001) because the achievement of an activity's goals and objectives using the factor measures offered. It absolutely was operationalized using three nominal scale items and ten, 5-point Likert-scale items. Managers and internal auditors were requested to rate the variables on five scale measurement: strongly agree (5), agree (4), neutral (3), disagree (2) and strongly disagree (1). Using this approach, the researcher treated these questions as formative indicators of internal audit effectiveness.

### **3.8.2. Independent Variables**

**Management Support:** According to Abu-Azza (2012), top management motivation for internal auditors includes proper recruiting, education and training programs for IA teams, adequate funding for IA, bonuses and good compensation for IA teams, and acceptance and implementation of IA recommendations. Two nominal scale items and ten 5-point Likert-scale items were used to operationalize it. Managers and internal auditors were requested to rate the variables on five scale measurement: strongly agree (5), agree (4), neutral (3), disagree (2) and strongly disagree (1). Using this approach, the researcher treated these questions as formative indicators of management support.

**Internal Auditor Independence (Autonomy):** in step with IIA (2015), auditor independence (autonomy) is that the freedom from constraints that jeopardize the interior auditor's capacity to hold out internal audit obligations objectively. Three nominal scale items and ten 5-point Likert-scale items were accustomed operationalize it. The variables were rated on a five-point scale by managers and internal auditors: strongly agree (5), agree (4), neutral (3), disagree (2), and strongly disagree (1). Using this approach, the researcher treated these questions as formative indicators of internal auditor's independence.

**Internal Audit Staff Competence:** in line with Belay (2007), competence is defined as somebody's ability to perform employment or task correctly supported their educational level, professional experience, and staff effort to deliver excellent service. Eight 5-point Likert-scale items were accustomed operationalize it. The variables were rated on a five-point scale by managers and internal auditors: strongly agree (5), agree (4), neutral (3), disagree (2), and

strongly disagree (1). Using this approach, the researcher treated these questions as formative indicators of internal audit staff competence.

**Internal audit quality** is a proxy for audit quality and is evidenced by the office's capacity to produce valuable audit findings and recommendations, as well as the office's ability to properly plan, perform, and communicate audit results (Mihret & Yismaw, 2007). Twelve 5-point Likert-scale items were used to operationalize it. The variables were rated on a five-point scale by managers and internal auditors: strongly agree (5), agree (4), neutral (3), disagree (2), and strongly disagree (1). Using this approach, the researcher treated these questions as formative indicators of internal audit quality.

### **3.9. Ethical Considerations**

According to Mugenda and Mugenda (2003) a researcher must confirm to the principle of voluntary consent where the respondents willingly participate in research. Informed consent should be based on the information regarding the purpose of the research study, identification of the researcher, any benefits that may be received. Mugenda and Mugenda (2003) notes that participation in research is voluntary and subjects are at liberty to withdraw from the study at any time without any consequences. The researcher communicated this to the respondents before the start of the study. No respondents were forced to take part in the study but it was done voluntarily.

According to Creswell (2009) plagiarism refers to passing off another person's work as if it were your own, by claiming credit for something that was done by someone else. It is taking and using another person's thoughts as if they were your own. Utmost care is taken to ensure that all work borrowed from other scholars were acknowledged.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

This chapter presents the results of the investigation by the researcher based on the methodology stated in chapter three. It includes the general background of the respondents and detailed discussion of the four specific objectives, analysis of descriptive statistics, and correlation and regression analyses through IBM SPSS version 21. Before running any analysis tests were carried out in order to test whether the results were reliable, or internal consistency of the overall factors affecting internal audit effectiveness dimensions was checked through Cronbach alpha and also the validity was tested using the content validity. The findings of the study were also discussed in a relation to the literature review.

#### **4.1. Questionnaire Response Rate**

In the study, a total of 93 questionnaires were issued of which 90 were successfully filled, returned and taken as valid samples.

**Table 4.1: Questionnaire Response Rate**

<b>Questionnaires Issued</b>	<b>Returned</b>	<b>Percentage of Return Rate</b>
93	90	96.77%

*Source: Survey Data (2021)*

According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This implies that basing on this assertion; the response rate in this case of 96.77% was very good as shown in Table 4.1 above.

#### **4.2. Reliability and Validity Assessment Results**

The degree to which the data collection procedures utilized in the study compare to the expected outcomes is referred to as reliability. The term "reliability" refers to a measurement of the consistency of the variables under examination. The data reliability against the explanatory factors was assessed using the Cronbach's Alpha test, as shown in Table 4.2 below. For all variables involved, the Cronbach's Alpha Statistics for the explanatory factors above the acceptable level of 0.7 (Hair et al., 2010). This indicates that the data acquired for the study was consistent and dependable. Furthermore, validity relates to an investigation's legitimacy (Creswell, 2009). It pertains to establishing whether the data gathering tools are a true estimate

of what they should enumerate. The researcher was concerned with content validity by simply looking at the substance of information collection tools to see if they were real, with her supervisor's consent. Also, to obtain content validity, the researcher adapted the approaches suggested by Cooper and Schindler (2011); that is, identifying existing scales from the relevant literature.

**Table 4.2: Reliability Analysis Results**

<b>Variables</b>	<b>Number of Items</b>	<b>Cronbach Alpha</b>
Management Support	12	0.873
Internal Auditors Independence	13	0.861
Internal Audit Staff Competence	8	0.926
Internal Audit Quality	12	0.943
Effectiveness of Internal Audit	13	0.897

*Source: Survey Data (2021)*

### **4.3. Demographic Characteristics of the Respondents**

The demographic characteristics of the respondent's encompass gender, age, educational level, level of management and total service year within the current organization. Frequency and percentage of respondents were presented below in Table 4.3.

Analysis of the demographic characteristics of the respondents presented in Table 4.3 below shows that gender wise 67(74.4%) of respondents were male and the remaining 23(25.6%) were female. On the other hand, as displayed in the Table 4.3 below, the majority of the respondents or 42(46.7%) aged between 41 and 50 years, followed by 34(37.8%) of the respondents age exist between 31 and 40 years, 11(12.2%) of the respondents age exist between 20 and 30 years, and lastly 3(3.3%) of the respondents aged above 50 years. This indicated that the majority of the respondents included in this study are male and aged between 41 and 50 years.

Regarding educational background of the respondents as shown in Table 4.3 below, the majority or 53(58.9%) of the respondents were first degree holders, followed by 22(24.4%) of the respondents have educational qualification of master's degree and above, and lastly 15(16.7%) of the respondents were diploma holders. This result explains the study has got a proper input from well-educated staffs and managers of International NGO's in Ethiopia.

**Table 4.3: Demographic Characteristics of the Respondents**

No	Indicators	Category	Frequency	Percent
1	Gender	Male	67	74.4%
		Female	23	25.6%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
2	Age	Between 20 and 30 years	11	12.2%
		Between 31 and 40 years	34	37.8%
		Between 41 and 50 years	42	46.7%
		Above 50 years	3	3.3%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
3	Educational Level	Diploma	15	16.7%
		First degree	53	58.9%
		Master's degree and above	22	24.4%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
4	Level of Management	Senior	15	16.7%
		Middle Level	35	38.9%
		Supervisor	16	17.8%
		Audit Assistant	24	26.6%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
5	Total service year within the current organization	Less than 2 years	54	60.0%
		Between 3 and 5 years	29	32.2%
		Between 6 and 10 years	6	6.7%
		Above 10 years	1	1.1%
<b>Total</b>			<b>90</b>	<b>100.0%</b>

*Source: Survey Data (2021)*

According to Table 4.3 above, the majority of the respondents 35(35.9%) worked as middle level managers, followed by 24(24.6%) who worked as audit assistants, 16(17.8%) who worked as supervisors, and at last 15(17.8%) who worked as senior managers. the bulk of the respondents during this study were middle-level managers, supported this conclusion.

Table 4.3 above also showed that work experience of the respondents in the current NGO from the data, greater portion of the respondents with 54(60.0%) have work experience less than 2 years while 29(32.2%) have work experience between 3 to 5 years and the rest 6(6.7%) and 1(1.1%) have served between 6 to 10 years and above 10 years respectively. This indicates that the study has relied on less experienced employees of International NGO's in Ethiopia.

#### 4.3.1. General Qualifications of Internal Auditors

As shown in Table 4.4 below, from the total of 90 respondents included in this study 39 of them worked as an internal auditor in the selected International NGO's in Ethiopia.

**Table 4.4: Information on General Qualifications of Internal Auditors**

No	Indicators	Category	Frequency	Percent
1	Highest educational qualification	Diploma in accounting	3	7.7%
		Bachelor's degree	25	64.1%
		Master's degree and above	11	28.2%
<b>Total</b>			<b>39</b>	<b>100.0%</b>
2	Experiences working as Internal Auditor	Less than 2 years	4	10.3%
		2-6 years	21	53.8%
		6-10 years	12	30.8%
		More than 10 years	2	5.1%
<b>Total</b>			<b>39</b>	<b>100.0%</b>
3	Professional Certification	Certified Internal Auditor	13	33.3%
		Certified Public Accountant	17	43.6%
		Certified Management Accountant	6	15.4%
		Other Certification	1	2.6%
		Not Certified	2	5.1%
<b>Total</b>			<b>39</b>	<b>100.0%</b>

*Source: Survey Data (2021)*

As shown in Table 4.4 above from the 39 internal auditors included in this study 3(7.7%) of the respondents were diploma holders, 25(64.1%) of the respondents were first degree holders and 11(28.2%) of the respondents have master's degree and above educational qualification.

This result explains the study has got a proper input from well-educated internal auditors of International NGO's in Ethiopia.

Concerning experiences working as internal auditor as shown in Table 4.4 above from the total of 39 respondents, the majority or 21(53.8%) of the respondents had an experience between 2 to 6 years, followed 12(30.8%) of the respondents who had working experience of between 6 to 10 years. Finally, 4(10.3%) and 2(5.1%) of the respondents had an experience less than 2 years and more than 10 years respectively. This indicated that the inner auditors included during this study were less experience. It is also clear those individuals with 2 to 6 years of experience structure an oversized majority of the inside audit department, meaning that internal audit departments of international NGO's in Ethiopia have a bright future in terms of professional experience.

As shown in Table 4.4 above from the 39 internal auditors included in this study 17(43.6%) of them were Certified Public Accountant, 13(33.3%) of them were Certified Internal Auditor, 6(15.4%) of them were Certified Management Accountant. The rest 2(5.1%) and 1(2.6%) of them were Not Certified and other kind certification respectively. this indicated that the majority of the internal auditors included in this study have a certification on Certified Public Accountant.

#### **4.4. Descriptive Analysis of the Study Variables**

This part of the analysis was made based on survey schedule gathered from 90 employees of the selected International NGO's in Ethiopia by using close-ended questionnaires including 'Yes or No', 5-point Likert's scale questions and others. The study has four independent variables: Management Support, Internal Auditors Independence, Internal Audit Staff Competence and Internal Audit Quality and Effectiveness of Internal Audit as a dependent variable. For a consistent interpretation of descriptive analysis of 5-point Likert's scale questions, the following criterion described in Table 4.5 was used.

**Table 4.5: Five-Scaled Likert's Criterion**

No.	Mean Range	Response Options
1	[1.00, 1.80)	Strongly Disagree
2	[1.80, 2.60)	Disagree
3	[2.60, 3.40)	Neutral
4	[3.40, 4.20)	Agree
5	[4.20, 5.00]	Strongly Agree

*Source: Al-Sayaad, et al. (2006)*

#### **4.4.1. Management Support**

The impact of management support on internal audit effectiveness in chosen international NGO's in Ethiopia was analyzed through several questions for the study's primary goal. The research findings are summarized within the sections below.

Respondents were asked if they had received audit-related training within the previous year, and also the results are shown in Table 4.6 below. Per Table 4.6 below, 60 (66.7%) of respondents said they'd received audit-related training within the previous year, whereas 30 (33.3%) said that they had not. This implies that staff development training is not provided on regular basis altogether international non-governmental organizations in Ethiopia.

As shown in Table 4.6 below, 50 (55.6%) of respondents said training was done annually, 30 (33.3%) said it was done quarterly, and just 10 (11.1%) said it was done monthly. Annual training may not provide the essential development and advancement of knowledge in the field of auditing for the personnel.

**Table 4.6: Training Carried Out in Audit Related Issues**

No	Indicators	Category	Frequency	Percent
1	Have you been trained on audit related issues in the last year?	Yes	60	66.7%
		No	30	33.3%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
2	How often is the training carried out?	Monthly	10	11.1%
		Quarterly	30	33.3%
		Annually	50	55.6%
<b>Total</b>			<b>90</b>	<b>100.0%</b>

*Source: Survey Data (2021)*

Furthermore, the researcher employed statements to assess the level of management support for the effectiveness of internal auditing. The respondents were asked to rate how much they agreed with the above assertions. The replies were graded on a Likert scale of 1-5, with 1 indicating Strongly Disagree, 2 indicating Disagree, 3 indicating Neutral, 4 indicating Agree, and 5 indicating Strongly Agree. Table 4.7 shows the results of aggregating the responses and computing descriptive statistics to estimate the amount of management support for internal audit effectiveness.

The results in Table 4.7 below indicate that according to the respondents of the selected employees of International NGO's in Ethiopia, the overall management support towards the internal audit effectiveness items had scored an average mean value between 3.82 and 3.99 with a standard deviation value between 0.58 and 0.73. This indicated that the respondents of the selected employees of International NGO's in Ethiopia agreed on the overall items of management support dimensions because as described in Table 4.5 above, or because the mean values lies between 3.40 and 4.20. Besides this, the ten questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have the same perceptions towards the raised questions. The respondents also agreed that management has established well-established policies, regulations, and allocates sufficient resources to the internal audit function in the recruitment of internal audit staff, and that internal audit employees are allowed to participate in training and development programs to improve their skills and keep up with rapid changes in the field. The respondents also agreed that

management accepts and executes internal audit findings on time, and that management supports the internal audit function by investing appropriate funds annually to improve the operation and work plans of the internal audit function.

**Table 4.7: Descriptive Statistics of Management Support**

<b>Code</b>	<b>Statements on Management Support</b>	<b>Mean</b>	<b>SD</b>
<b>MS1</b>	Management has put up well-established policies and regulations in recruitment of Internal Audit staff.	3.97	0.63
<b>MS2</b>	Management allows internal audit employees to participate in training and development program in order to improve their skills and keep up the rapid changes in the field.	3.97	0.64
<b>MS3</b>	The management allocates enough resources to internal audit function to hire the right number of high-quality audit staff.	3.82	0.61
<b>MS4</b>	Management accepts and implements internal audit findings on time.	3.94	0.64
<b>MS5</b>	Management supports internal audit function by allocating sufficient funds annually to enhance achievement of its operation and work plans.	3.93	0.58
<b>MS6</b>	Management is aware of the internal audit department's needs and provides required resources	3.99	0.64
<b>MS7</b>	The management is involved in planning the internal audit.	3.88	0.73
<b>MS8</b>	Reports on the internal audit team's work is being delivered directly to the management.	3.99	0.68
<b>MS9</b>	Top management input is considered in setting internal audit priorities	3.92	0.66
<b>MS10</b>	Top management regard internal audit as a value-adding service.	3.92	0.69
<b>Composite Statistics</b>		<b>3.93</b>	<b>0.65</b>

*Source: Survey Data (2021)*

Moreover the respondents agreed that the management is aware of the internal audit department's needs and provides required resources, involved in the planning of the internal audit, reports from the internal audit team's work was directly delivered to management and

respond to the internal audit reports. In addition, the respondents stated that top management opinion is taken into account when determining internal audit priorities, and that internal audit is viewed as a value-added service to the company or INGOs. Finally, the composite statistics result with (mean=3.93 and SD=0.65) showed that the management support internal audit function by establishing policies, regulations and allocates enough resources in recruitment and training of Internal Audit staff. Also the management supports the internal audit by accepting and implementing internal audit findings on time in INGO's in Ethiopia. The managements have awareness on the internal audit department's needs to provide the required resources, involved in planning the internal audit, directly receive reports of the internal audit team's and generally the management considers the internal audit department as a value-adding service in the INGO's in Ethiopia.

The conclusions of the interview are almost identical to those of the aforementioned study question. According to interviewed internal auditors and managers, top management motivation for internal auditors includes proper recruitment, providing education and training programs for IA teams, an adequate budget for IA, bonuses and good compensation for IA teams, and acceptance and implementation of IA recommendations. They also stated that a lack of resources limits the scope of audit work, resulting in a worse quality of output. Furthermore, they have stressed the necessity of management's cooperation in removing any access and financial restrictions that obstruct the internal audit department's ability to function better.

#### **4.4.2. Internal Auditors Independence**

The impact of auditor independence on internal audit effectiveness was assessed through the determination of internal auditing procedures, the extent to which the Chief Internal Auditor's reporting level and a group of statements on auditor independence, as a part of the study's second objective. The general efficiency of the interior audit function was in determining the inner audit's efficacy. The sections that follow give the results of every of the three criteria accustomed assess the interior audit function's independence.

#### 4.4.2.1. Existence of Audit Committee and Determination of Internal Auditing Procedures

The researcher wanted to know if there was an audit committee and if so, who was in charge of determining the scope, time, and scope of internal audit procedures and reports in international NGO's in Ethiopia, as well as how the Chief Internal Auditor's reporting level affects internal audit effectiveness. As shown in Table 4.8 below, 71 (78.9%) of respondents said they had Audit Committees in their INGOs, compared to 19 (21.1%) who said they didn't. According to this finding, the majority of international non-governmental organizations in Ethiopia have audit committees.

**Table 4.8: Existence of Audit Committee and Determination of Procedures and Reporting Level of the Chief Internal Auditor**

No	Indicators	Category	Frequency	Percent
1	Is there an audit committee in the organization?	Yes	71	78.9%
		No	19	21.1%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
2	Who/What determines the scope, time and extent of internal auditing procedures and reports?	Audit Charter	24	26.7%
		Top Management	22	24.4%
		Audit Committee	32	35.6%
		Chief Internal Auditor	12	13.3%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
3	The reporting level of the chief internal auditor affects the effectiveness of internal audit function	High	48	53.3%
		Medium	24	26.7%
		Low	18	20.0%
<b>Total</b>			<b>90</b>	<b>100.0%</b>

*Source: Survey Data (2021)*

The audit committee was entrusted with developing audit procedures and reports to be followed in the INGOs represented by the biggest number of respondents or 32(35.6%), as shown in Table 4.8 above, followed by 24(26.7%) of the respondents who responded it is stated

by Audit Charter, next 22(24.4%) of the respondents who responded it is stated by Top Management and finally with the least being the Chief Internal Auditor at 12(13.3%). This finding suggested that audit committees are responsible with making significant decisions in internal audit departments in Ethiopia, such as setting the scope, timing, and breadth of internal audit procedures and reports.

Table 4.8 shows that 48 (53.3 percent) of respondents believe the Chief Internal Auditor's reporting level to the highest authority in international NGO's in Ethiopia has a significant impact on internal audit effectiveness, followed by 24 (26.7 percent) and 18 (20.0 percent) who believe it has a medium and low impact, respectively. This means that the Chief Internal Auditor is unrestricted in carrying out his or her tasks.

#### **4.4.2.2. Extent of Agreement on the Level of Internal Auditors Independence**

Furthermore, the researcher examined the degree of agreement among the respondents employing a series of assertions. A Likert Scale of 1-5 was utilized, with 1 indicating Strongly Disagree, 2 indicating Disagree, 3 indicating Neutral, 4 indicating Agree, and 5 indicating Strongly Agree. As indicated in Table 4.9 below, the responses were aggregated, and descriptive statistics were produced to live auditor independence.

The results in Table 4.9 below indicated that according to the respondents of the selected employees of International NGO's in Ethiopia, the overall internal auditor's independence towards the internal audit effectiveness items had scored an average mean value between 3.87 and 4.02 with a standard deviation value between 0.62 and 0.76. This indicated that the respondents of the selected employees of International NGO's in Ethiopia agreed on the overall items of internal auditors independence dimensions because as described in Table 4.5 above, or because the mean values lies between 3.40 and 4.20. Besides this, the ten questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have the same perceptions towards the raised questions.

The respondents also agreed that internal auditors have unrestricted access to records and persons during the auditing process, and that internal auditor findings are always objective. The respondents also agreed that the Chief Internal Auditor has complete discretion over the scope of the audit, reports directly to the board of directors, and maintains regular and direct contact with the general manager and the management team. Additionally, the respondents also

agreed that the IA sometimes takes part in designing organizational systems and procedures for regulating their procedures, operates independently and can audit any issue and can access any necessary information even if it is classified. Finally, the respondents agreed that the IA team is rotated to cover a variety of assignments, and that terminating the auditor's work requires approval from the IA committee and/or the board of directors.

**Table 4.9: Descriptive Statistics of Internal Auditors Independence**

<b>Code</b>	<b>Statements on Internal Auditors Independence</b>	<b>Mean</b>	<b>SD</b>
<b>IAI1</b>	Internal auditors have free access to records and people during auditing process	3.98	0.72
<b>IAI2</b>	The Chief Internal Auditor has freedom in scope determination	3.92	0.67
<b>IAI3</b>	The Chief Internal Auditor reports directly to the board of directors	3.96	0.72
<b>IAI4</b>	Reports prepared by internal auditors are always objective	3.92	0.67
<b>IAI5</b>	The IA sometimes takes part in designing organizational systems and procedures for regulating their procedures.	3.97	0.73
<b>IAI6</b>	The IA operates independently and can audit any issue it considers in need of auditing.	4.02	0.76
<b>IAI7</b>	The IA can access any necessary information even if it is classified.	3.94	0.69
<b>IAI8</b>	The IA team is rotated so that they can cover a variety of assignments.	3.97	0.66
<b>IAI9</b>	The Chief Internal Auditor has regular and direct working relations with the general manager and the managerial team.	3.87	0.62
<b>IAI10</b>	Terminating the work of the auditor requires the approval of the IA committee and or the board of directors.	3.90	0.67
<b>Composite Statistics</b>		<b>3.945</b>	<b>0.69</b>

*Source: Survey Data (2021)*

Finally, the composite statistics result with (mean=3.94 and SD=0.69) showed that the inner auditors have free access to records, people during auditing process and their reports are always objective, operates independently, can audit any issues and may access any necessary information whether or not it's classified. Beside this IA takes part in designing organizational systems and procedures for regulating their procedures, IA team is rotated so that they can

cover a variety of assignments and terminating the work of the auditor requires the approval of the IA committee and/or the board of directors. Also the Chief Internal Auditor has freedom in determination of scope of his work; reports directly to the board of directors and have regular, and direct working relation with the management body. This means that the internal audit divisions are completely under the jurisdiction of the Chief Internal Auditors.

Internal auditor independence can be achieved through mechanisms such as auditor scope determination freedom, freedom of access to records, full access to employees, reporting to appropriately senior levels, strict appointment and internal audit budget approval only by the board, and prohibition from performing non-audit work, according to the interviewed respondents. Internal auditors, in step with the interviewed respondents, must have a high degree of independence and objectivity so as to properly do their duties so as for an organization to be effective. They also claimed that because independence is that the cornerstone of IA effectiveness, IA effectiveness cannot be achieved without the independence of Internal Auditors.

#### **4.4.3. Internal Audit Staff Competence**

The competence of the internal audit team was critical in achieving the study's third goal. The audit staff's necessary skills and knowledge were crucial to the overall success of the audit function in international NGOs in Ethiopia. Closed ended questions as well as a 5-point Likert scale on a set of assertions were requested of the responses.

##### **4.4.3.1. Internal Audit Staffs' Educational Qualification and Experience**

As shown in Table 4.4 above, the highest level of education of internal audit employees was Bachelor's degree at 25 (64.1%), followed by Master's degree and above at 11 (28.2%), and finally Diploma in Accounting at 3 (7.7%) of the 39 internal auditors in this study. This indicates that the internal audit teams were properly staffed in terms of academic and professional qualifications.

As shown in Table 4.4 above, the best mean of 21(53.8%) of the respondents said that internal audit personnel had working experience of between 2 and 6 years, followed by 12(30.8 percent) of the respondents who indicated internal audit employees had working experience of between 6 and 10 years. Finally, 4(10.3%) and 2(5.1%) of respondents said that internal audit staff had but 2 years and over 10 years of experience, respectively. This result implies that the

NGO's has the right staff in terms of educational qualification but have less experience. It is also clear that individuals with 2 to 6 years of experience make up a large majority of the internal audit department, meaning that internal audit departments of international NGO's in Ethiopia have a bright future in terms of professional experience. Beside this, Table 4.4 above indicated that the majority of the internal auditors included in this study have a professional certification in Accounting.

#### **4.4.3.2. Extent of Agreement on the Level of Internal Audit Staff Competence**

Furthermore, the researcher examined the degree of agreement among the respondents using a series of assertions. A Likert Scale of 1-5 was utilized, with 1 indicating Strongly Disagree, 2 indicating Disagree, 3 indicating Neutral, 4 indicating Agree, and 5 indicating Strongly Agree. As indicated in Table 4.10 below, the responses were averaged, and descriptive statistics were generated to measure Internal Audit Staff Competence.

The results in Table 4.10 below indicated that according to the respondents of the selected employees of International NGO's in Ethiopia, the overall dimensions of Internal Audit Staff Competence items had scored an average mean value between 3.78 and 3.98 with a standard deviation value between 0.64 and 0.78. This indicated that the respondents of the selected employees of International NGO's in Ethiopia agreed on the overall items of Internal Audit Staff Competence dimensions because as described in Table 4.5 above. Besides this, the eight questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have the same perceptions towards the raised questions. The respondents also agreed that the internal audit staff has professional experience and expertise in areas of governance, risk, finance, and technical knowledge required in the field of auditing, and that they regularly advance their knowledge by participating in training and seminars, as well as sharpening their skills for increased productivity. Because there are enough and qualified internal auditors, and most of them have auditing certification, the respondents agreed that audit procedures and evidence collecting are finished on time.

**Table 4.10: Descriptive Statistics of Internal Audit Staff Competence**

<b>Code</b>	<b>Statements on Internal Audit Staff Competence</b>	<b>Mean</b>	<b>SD</b>
<b>IASC1</b>	Internal audit staff has professional experience and expertise in areas of governance, risk, finance, and technical knowledge required in the field of auditing.	3.80	0.74
<b>IASC2</b>	Internal Audit employees regularly advance their knowledge through participating in training, seminars; sharpen their skills for better productivity	3.84	0.75
<b>IASC3</b>	The audit procedures and evidence collections are completed on time, since enough skilled internal auditors are available or employed	3.86	0.76
<b>IASC4</b>	All the audit staffs have sufficient skilled in auditing and most of them have certification in auditing.	3.87	0.74
<b>IASC5</b>	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software.	3.78	0.78
<b>IASC6</b>	The internal audit department has sufficient number of staffs who are responsible to undertake auditing activities.	3.84	0.76
<b>IASC7</b>	Internal auditors are committed to continuous professional development and training	3.92	0.64
<b>IASC8</b>	The internal auditors can audit and review each activity on time, and cover the planned scope of auditing activities	3.98	0.75
<b>Composite Statistics</b>		<b>3.86</b>	<b>0.74</b>

*Source: Survey Data (2021)*

The respondents also agreed that internal auditing is distributed using current technology, like computerized data tools and specific IA software, which the inside audit department encompasses a sufficient number of employees to carry out auditing tasks. Internal auditors are also committed to continuing professional growth and training, can audit and review each action on time, and canopy the anticipated scope of auditing activities, in keeping with the respondents.

Finally, the composite statistics result (mean=3.86 and SD=0.74) revealed that internal audit staffs in Ethiopian international non-governmental organizations are competent in terms of skills, knowledge, and quantity, and perform their auditing duties using modern technology such as computerized data tools and IA software. Internal auditors are also committed to ongoing professional growth and training, allowing them to audit and assess each action on time and within the scope of auditing activities planned.

The majority of internal audit employees had a bachelor's or master's degree, showing that they had a high level of educational and professional qualifications, as well as strong technical competence, according to the respondents. According to the interviews, the internal audit team also had professional and technical experience in governance, risk mitigation, and financial knowledge relevant to the auditing industry. Internal audit employees at NGOs enhanced their effectiveness by learning risk management and financial skills. They also stated that the internal audit staff's competence and expertise aided the performance of the internal audit.

#### **4.4.4. Internal Audit Quality**

The researcher employed closed ended questions on a five-point Likert Scale to measure the impact of internal audit quality on internal audit effectiveness. The statements are rated on a scale of 1 to 5, with 1 indicating strong disagreement, 2 indicating disagreement, 3 indicating neutrality, 4 indicating agreement, and 5 indicating strong agreement. The satisfied level was more than 3, while the dissatisfactory level was lower. The responses were combined to produce descriptive statistics for Internal Audit Quality, as shown in Table 4.11 below.

The results in Table 4.11 below indicated that according to the respondents of the selected managers and internal auditors of International NGO's in Ethiopia, the overall dimensions of Internal Audit Quality items had scored an average mean value between 3.90 and 4.11 with a standard deviation value between 0.63 and 0.78. This indicated that the respondents of the selected employees of International NGO's in Ethiopia agreed on the overall items of Internal Audit Staff Competence dimensions because as described in Table 4.5 above. Besides this, the twelve questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have the same perceptions towards the raised questions.

The respondents also agreed that the internal audits department supervises and evaluates the organization's accounting system, ensures internal audit compliance with established policies,

plans, and procedures, examines financial reports prior to external audit, and conducts detailed tests of transactions and financial statement balances.

**Table 4.11: Descriptive Statistics of Internal Audit Quality**

<b>Code</b>	<b>Statements on Internal Audit Quality</b>	<b>Mean</b>	<b>SD</b>
<b>IAQ1</b>	The internal audits supervise and evaluate the accounting system of the organization	3.94	0.71
<b>IAQ2</b>	There is reliable, adequate and applicable internal control system	4.11	0.66
<b>IAQ3</b>	The internal audit ensures compliance with established policies, plans and procedures	3.99	0.68
<b>IAQ4</b>	The internal audit examine financial report before external audit	4.02	0.69
<b>IAQ5</b>	Detailed test of transaction and balances are performed by the internal audit	3.94	0.66
<b>IAQ6</b>	Securely using of documents and information technology (IT) database	3.91	0.63
<b>IAQ7</b>	The annual audit plan is determined completely by the internal auditor.	3.94	0.78
<b>IAQ8</b>	The areas audited are very significant to the organization.	3.93	0.70
<b>IAQ9</b>	The IA can cover all organizational units and all issues.	3.99	0.77
<b>IAQ10</b>	The response of auditees to the audit is submitted in writing and is relevant and comprehensive.	3.92	0.74
<b>IAQ11</b>	There is a regular follow-up by the IA staff to examine actions taken to correct the problems found.	3.90	0.77
<b>IAQ12</b>	The internal auditor also performs other activities such as developing procedures and conducting economic and financial audits.	3.98	0.67
<b>Composite Statistics</b>		<b>3.96</b>	<b>0.71</b>

*Source: Survey Data (2021)*

The respondents also agreed that there is reliable, adequate and applicable internal control system and the internal auditors securely used documents and IT database, the annual audit plan is determined completely by them, the areas that they audited are very significant to their

organization and also they cover all organizational units and issues. Furthermore, the respondents agreed that the internal auditor provides relevant and comprehensive audit responses to auditees in writing, that the IA staff conducts regular follow-up to examine actions taken and correct problems discovered, and that the internal auditor also develops procedures and conducts economic and financial audits.

Finally, the composite statistics result (mean=3.96 and SD=0.71) revealed that the inner audit department maintained the NGOs' internal audit quality by supervising and evaluating the organization's accounting, ensuring internal audit compliance with established policies, plans, and procedures, examining financial reports before external audit, and conducting detailed tests of transaction and balances of monetary statements. Beside this the internal auditors kept the internal audit quality of the NGOs by securely using documents and IT database, completely planning the annual audit plan, auditing areas that are very significant to their organization and covering all organizational units and issues. Also the internal auditors kept the internal audit quality of the NGOs by submitting a relevant and comprehensive audit response to the auditees in writing, performing regular follow-up to examine actions taken and to correct the problems found and they also developed procedures and conducted economic and financial audits. Finally, the study indicated that the internal audit quality of the NGOs was kept due to the presence of reliable, adequate and applicable internal control system.

Results from interview also disclose almost similar findings to the above research question. Internal audit quality in NGOs was maintained, according to the interviewed respondents, by supervising and evaluating the organization's accounting system, ensuring internal audit compliance with established policies, plans, and procedures, examining financial reports prior to external audit, and conducting detailed tests of transaction and balances of financial statements. There is also secure documentation using an IT database, auditing areas cover all areas important to the firm, audit reports are written, and regular follow-up is performed to assess measures done to remedy problems discovered.

#### **4.4.5. Summary of Factors Affecting Internal Audit Effectiveness Dimensions**

As far as the summary of descriptive analysis of factors affecting the Internal Audit Effectiveness of the selected INGOs in Ethiopia was concerned, as shown in Table 4.12 below, from the composite statistics results of the factors affecting the internal audit effectiveness

dimensions, Internal Audit Quality items have scored the highest mean value of 3.96 with standard deviation of 0.71. This implies that the respondents of the selected INGOs in Ethiopia indicated that internal audit quality of the INGOs were kept by the internal audit department, through providing useful audit findings and recommendations, and through properly planning, performing and communicating audit results. This was followed by Internal Auditors Independence with mean value of 3.95 (SD=0.69), Management Support with mean value of 3.93 (SD=0.65) and Internal Audit Staff Competence with mean value of 3.86 (SD=0.74) respectively. Even though the above four factors high affect the internal audit effectiveness, Internal Auditors Independence had the second highest mean value next to Internal Audit Quality, thirdly Management Support and the last and fourth one was Internal Audit Staff Competence.

**Table 4.12: Summary of Factors Affecting the Internal Audit Effectiveness**

Summary of Factors Affecting the Internal Audit Effectiveness	Composite Statistics Results	
	Mean	Std. Deviation
Management Support	3.93	0.65
Internal Auditors Independence	3.95	0.69
Internal Audit Staff Competence	3.86	0.74
Internal Audit Quality	3.96	0.71

*Source: Survey Data (2021)*

#### **4.4.6. Descriptive Analysis of the Internal Audit Effectiveness**

The researcher employed closed-ended questions moreover as a series of statements supported a 5-point Likert Scale to assess the effectiveness of the chosen international NGOs' internal audits. The respondents were asked if the inner Audit Function was involved in setting organizational goals in their organization, and also the responses are shown in Table 4.13 below. It are often seen that the bulk of the respondents, with the best mean of 69(76.7%), said that the inner Audit Function is involved in setting organizational goals, while 21(21.3%) said no. As a result, the Internal Audit Function is a portion and component of management's goal-setting process, making it easier to evaluate these objectives.

The respondents were asked to specify the extent to which the internal audit function checks the integrity of financial and non-financial data, and they gave the following answers: According to the results in Table 4.13, the majority of respondents (47.2%) believe that an effective internal audit function checks the dependability and integrity of financial and non-financial information to a substantial extent. While the remaining 33 (36.7%) and 10 (11.1%) respondents said that a successful internal audit function examines the dependability and integrity of economic and non-financial data to a medium and low extent, respectively. This suggests that the internal audit function is primarily chargeable for examining the accuracy and consistency of economic and non-financial data.

**Table 4.13: Internal Audit Function Reviews of Reliability, Integrity of Programs and Operations**

No	Indicators	Category	Frequency	Percent
1	Internal Audit Function is involved in setting Organizational goals?	Yes	69	76.7%
		No	21	23.3%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
2	The extent to which an effective internal audit function reviews the reliability & integrity financial & non-financial information leading to credibility	High	47	52.2%
		Medium	33	36.7%
		Low	10	11.1%
<b>Total</b>			<b>90</b>	<b>100.0%</b>
3	Internal audit function is responsible for reviewing programs and operations to establish results consistent with organization's goals	Wholly	45	50.0%
		Partially	30	33.3%
		Not at all	15	16.7%
<b>Total</b>			<b>90</b>	<b>100.0%</b>

*Source: Survey Data (2021)*

The respondents were asked whether the internal audit function is wholly responsible for reviewing programs and operations, partially responsible for reviewing programs and operations, or never responsible for reviewing programs and operations, and the responses from Table 4.13 show that 45 (50%) of the respondents believe the internal audit function is wholly responsible for reviewing programs and operations, while 30 (33.3%) believe the

internal audit function is partially responsible for reviewing programs and operations. However, 15 respondents (16.7%) stated that the inside audit function isn't in control of assessing INGOs' programs and operations. This demonstrated that the inside audit function in Ethiopia is solely accountable for reviewing INGOs' activities and operations.

The respondents were asked to rate their level of agreement with the statements on a scale of 1 to 5, with 1 indicating strong disagreement, 2 indicating disagreement, 3 indicating neutrality, 4 indicating agreement, and 5 indicating strong agreement. The descriptive statistics for the aggregated responses are tabulated below. The results in Table 4.14 below indicated that according to the respondents of the selected managers and internal auditors of International NGO's in Ethiopia, the overall dimensions of Internal Audit Effectiveness items had scored an average mean value between 3.87 and 4.01 with a standard deviation value between 0.63 and 0.74. This indicated that the respondents of the selected employees of International NGO's in Ethiopia agreed on the overall items of Internal Audit Effectiveness dimensions because as described in Table 4.5 above. Besides this, the ten questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have the same perceptions towards the raised questions.

The result in Table 4.14 below also indicated that the internal audit effectiveness contributed to the achievement of the organization objectives and ensured that fraud is minimized in the organization. The result in Table 4.14 below also indicated that in order to increase the internal audit effectiveness, the internal auditors effectively identify and report noncompliance reports that are reliable and significant to the organization by providing useful recommendations and constructive criticisms on non-compliances activities in line with the organization policies, procedures and process. Aside from that, the internal audit communicated the audit results in a timely manner, increased the effectiveness of the internal control process, and built a follow-up process to ensure that remedial actions were implemented efficiently. In order to improve internal audit effectiveness, the internal audit looked at the risk of fraud, how the organization handles fraud risk, and whether the risk responses are suitable and aligned with the risk appetite of the organization. This result was supported by the composite statistics result with (mean=3.94 and SD=0.68) as shown in Table 4.14 below.

**Table 4.14: Descriptive Statistics of Internal Audit Effectiveness**

<b>Code</b>	<b>Statements on Internal Audit Effectiveness</b>	<b>Mean</b>	<b>SD</b>
<b>EIA1</b>	Internal audit effectiveness contributes to the achievement of the organization objectives	3.92	0.69
<b>EIA2</b>	Internal audit effectiveness ensures that fraud is minimized in your organization	3.97	0.69
<b>EIA3</b>	The noncompliance reports provided by internal auditors are reliable and significant to the organization.	3.94	0.64
<b>EIA4</b>	Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems in the organization.	3.99	0.74
<b>EIA5</b>	Internal auditors can effectively identify and report any non-compliance activities with the organization policies, procedures and process.	3.96	0.63
<b>EIA6</b>	Internal audit communicates timely the engagement results	3.87	0.69
<b>EIA7</b>	Internal audit improved the effectiveness of internal control process	4.01	0.68
<b>EIA8</b>	Internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented	3.86	0.70
<b>EIA9</b>	Internal audit evaluates the potential for the occurrence of fraud and how the organization manages fraud risk	3.91	0.68
<b>EIA10</b>	Internal audit assesses the risk responses that are appropriate and align with the organization's risk appetite	3.92	0.70
<b>Composite Statistics</b>		<b>3.94</b>	<b>0.68</b>

*Source: Survey Data (2021)*

#### **4.5. Results of Inferential Statistics**

In this section, the results of inferential statistics are presented. In order to address the objectives of the study, Pearson's Product Moment Correlation Coefficient and Regression

Analyses were performed. With the aid of these statistical techniques, conclusions are drawn and decisions are made with respect to the research hypothesis.

#### 4.5.1. Pearson Correlation Analysis

Correlation analysis is used to measure the relationship between independent and dependent variables. In this section, the correlation matrix of the constructs are computed which provide the preliminary evidence of the relationship between variables. Pearson coefficient of correlation is the most widely used for summarizing the degree of relationship and directions between two variables.

The values of correlation always should be between -1 and +1. The value of -1 indicates perfect negative correlation between the dependent and independent variables (factors affecting internal audit effectiveness constructs and internal audit effectiveness), value of 0 indicates no correlation between dependent and independent variables (factors affecting internal audit effectiveness constructs and internal audit effectiveness) and finally the value of +1 for correlation indicates perfect positive relationship between dependent variable and independent variables (factors affecting internal audit effectiveness constructs and internal audit effectiveness). Rule of thumb for about the strength of correlation of coefficients was presented in Table 4.15 below.

**Table 4.15: Rule of Thumb for about the Strength of Correlation of Coefficients**

Range of Coefficient of Strength	Description
±0.81 to ±1.00	Very Strong
±0.61 to ±0.80	Strong
±0.41 to ±0.60	Moderate
±0.21 to ±0.40	Weak
±0.00 to ±0.20	None

*Source: Bhattacharjee, (2012)*

As it is clearly indicated in the Table 4.16 below, the highest correlation (i.e. 0.840) is between management support and internal audit effectiveness which is significant at the 0.01 level ( $P < 0.01$ ). According to Bhattacharjee (2012) from Table 4.15 above, management support and internal audit effectiveness have a very strong and positive correlation between them. The next

highest correlation 0.835 is between internal audit quality and internal audit effectiveness which is significant at 0.01 level ( $P < 0.01$ ), which again have a very strong and positive correlation according to Table 4.15. The third highest correlation is 0.819 is between internal auditors independence and internal audit effectiveness which is significant at 0.01 level ( $P < 0.01$ ). According to Bhattacharjee (2012), they have a very strong and positive correlation between them. Finally it is followed by internal audit staff competence (i.e., 0.753). According to the rule of thumb from Table 4.15, it has a strong and positive correlation, which is statistically significant at 99 percent confidence level. This implies that at a 1 percent level of significance it was found that the management support, internal audit quality, internal auditor's independence and internal audit staff competence have a significant relationship with internal audit effectiveness in the study area. These findings are in line with the results reported by Ayom (2013) and Night (2019).

**Table 4.16: The Pearson Correlation Result of the Study Variables**

Correlations						
		IAE	MS	IAI	IASC	IAQ
IAE	Pearson Correlation	1	.840**	.819**	.753**	.835**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	90	90	90	90	90
MS	Pearson Correlation	.840**	1	.798**	.709**	.801**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	90	90	90	90	90
IAI	Pearson Correlation	.819**	.798**	1	.733**	.804**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	90	90	90	90	90
IASC	Pearson Correlation	.753**	.709**	.733**	1	.705**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	90	90	90	90	90
IAQ	Pearson Correlation	.835**	.801**	.804**	.705**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	90	90	90	90	90
**. Correlation is significant at the 0.01 level (2-tailed).						

*Source: Survey Data (2021)*

## **4.5.2. Multiple Regression Analysis**

Multiple regressions is statistical techniques that can be used to analyze the association between single dependent variable and several independent variables (Anderson et al., 2008). This is to mean that multiple regression is used to investigate the factors affecting internal audit effectiveness. As such the sole dependent variable in this investigation was internal audit effectiveness. Management support, internal auditor independence, internal audit staff competency, and internal audit quality were the independent factors.

### **4.5.2.1. Assumptions of Multiple Regressions**

The following assumptions were checked prior to running the regression model:

#### **Sample Size and Independence of Observations**

According to a formula presented by Tabachanick and Fidell (2007) of  $N > 50 + 8 * m$  (where  $m$  = number of independent variables), and with  $m = 4$  since there were 4 independent variables used, the minimum sample size for multiple regression was calculated to be  $50 + 8 * 4 = 50 + 32 = 82$ . Therefore, as 93 respondents were obtained in this study, the sample was deemed adequate for regression analysis to be used to test the hypotheses. The independence of observations was guaranteed by the researcher by making sure that the questionnaires should be answered by different respondents to get tolerable variances in responses.

#### **Checking for Outliers**

Because multiple regression is very sensitive to outliers (very high or very low scores). The researcher checked for extreme scores at the initial data screening process by using Skewness and Kurtosis. The Skewness and Kurtosis of the 5 constructs are well behaved in term of normality. As described by Hair et al. (2010) the values of Skewness and Kurtosis were between the ranges of  $-1$  and  $+1$  indicates that there are no outlier or extreme values that might jeopardize the validity of the analysis as shown in Table 4.17 below.

**Table 4.17: Skewness and Kurtosis Values of the Study Variables**

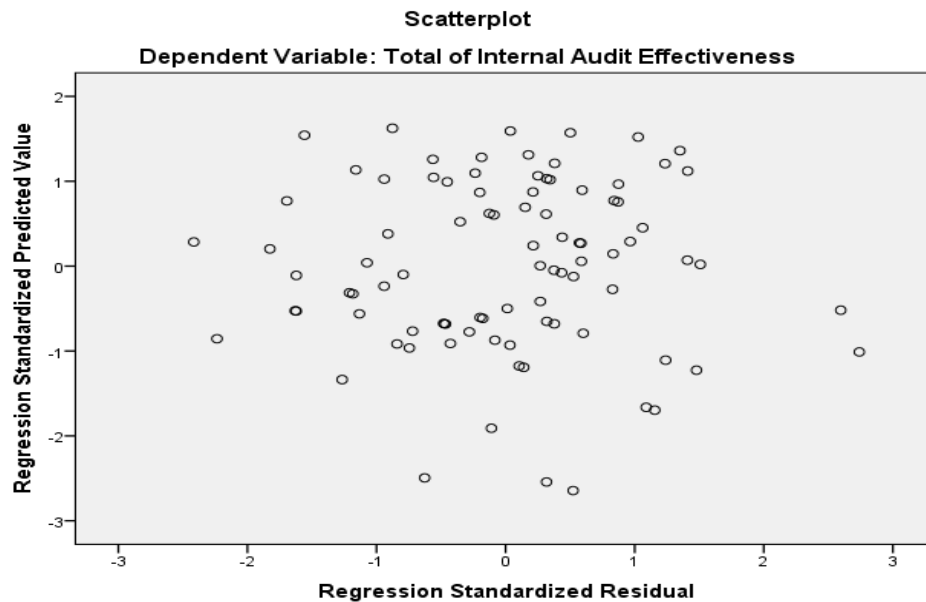
Summary of the Study Variables	Respondents of INGOs of Ethiopia	
	Skewness	Kurtosis
Management Support	-0.533	-0.148
Internal Auditors Independence	-0.411	-0.612
Internal Audit Staff Competence	-0.049	-0.955
Internal Audit Quality	-0.363	-0.562
Internal Audit Effectiveness	-0.259	-0.639

*Source: Survey Data (2021)*

**Homoscedasticity Test**

As shown in Figure 4.1 below, the small circles follow no pattern and they are randomly dispersed in the scatterplot so, the researcher assumed that the residuals have equal variances.

**Figure 4.1: Scatterplot of Residuals of the Regression Model**

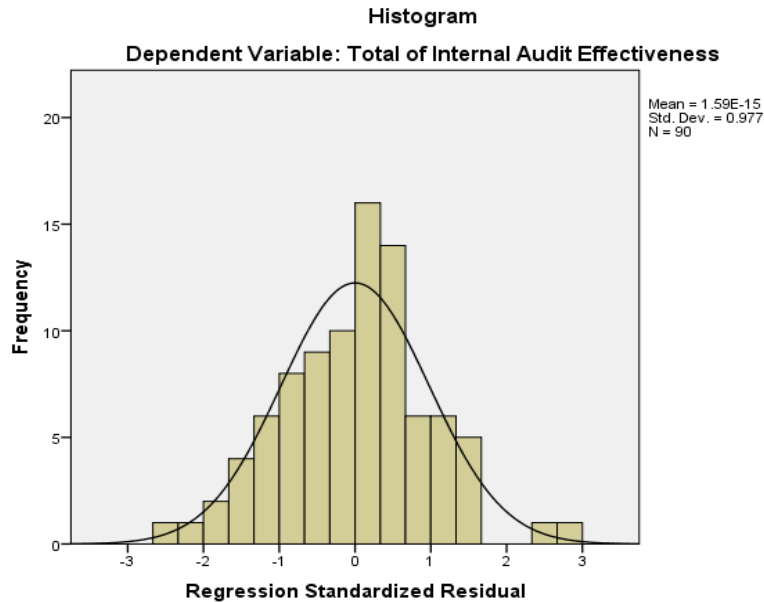


*Source: Survey Data (2021)*

**Normality Test**

The histogram and P-P plot presented in Figure 4.2 below indicated reasonable normality of data, because the mean value was close to 0 (i.e., 1.59E-15) and standard deviation was close to 1 (i.e., 0.977), this shows the data was roughly close to normality.

**Figure 4.2: Histogram of the Regression Model**

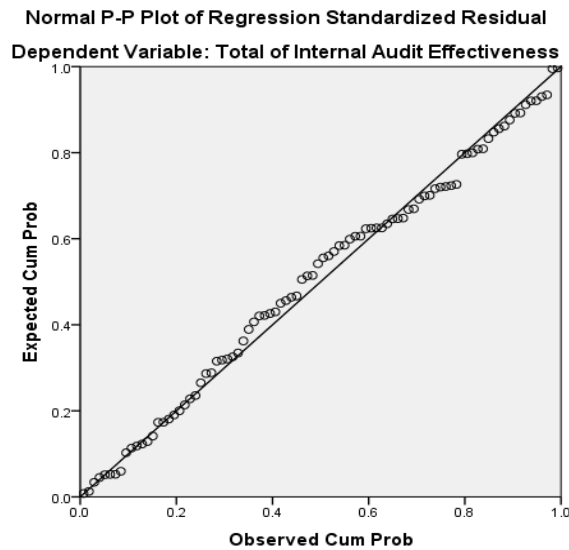


*Source: Survey Data (2021)*

### Linearity Test

Linearity is another condition to be met for valid regression analysis, P-P plot presented in Figure 4.3 below show that the small circles were close to the diagonal line, this shows the data was roughly close to linearity.

**Figure 4.3: The Normal P-P Plot of the Regression Model**



*Source: Survey Data (2021)*

### **Multicollinearity Test**

Multicollinearity exists when there is a strong correlation between two or more independent or predictors variables in a regression model. Multicollinearity of the regression result for this study was tested using Pearson correlation matrix, for each of the regression model correlation between the predictors variables were below 0.90 as shown in Table 4.16. This is also supported by the statistics of collinearity test results shown in Table 4.18 also show that all the results from the model have a tolerance value greater than 0.1 and VIF less than 10 indicating that there was no serious multicollinearity in the survey data. Since all the five assumptions were not violated, the researcher examined the data collected by the schedule using multiple regression models as follow.

To find out the best set of predictors of Internal Audit Effectiveness (IAE), four predictors of multiple linear regression models was proposed. The four predictor variables were Management Support ( $X_1$ ), Internal Auditors Independence ( $X_2$ ), Internal Audit Staff Competence ( $X_3$ ), and Internal Audit Quality ( $X_4$ ). The equation of the proposed multiple linear regression model was as follows:

$$Y(\text{IAE}) = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \varepsilon$$

Where:  $\beta_0$  = Constant,  $\varepsilon$  = Error

To determine the best set of predictor variable in predicting Internal Audit Effectiveness (IAE), a standard multiple regression method was used. As indicated in Table 4.18 below based on the standard multiple regression method used, all of the four independent or predictor variables were found to be significance in explaining Internal Audit Effectiveness (IAE). They are Management Support ( $X_1$ ), Internal Auditors Independence ( $X_2$ ), Internal Audit Staff Competence ( $X_3$ ), and Internal Audit Quality ( $X_4$ ). All the independent variables did contribute significantly to the variation of the dependent variable Internal Audit Effectiveness (IAE).

From the 4.18 below, the regression coefficients were interpreted at 95% level of significance thus the Alpha value 5%. Therefore from the regression result of unstandardized beta coefficients of management support, internal auditor's independence, internal audit staff competence, and internal audit quality were 0.338, 0.189, 0.186 and 0.237 respectively. In addition, Table 4.18 demonstrates that management support has the most positive and significant beta coefficient (0.338). When the variation explained by all other predictor

variables in the model is adjusted for, this variable offers the strongest unique contribution to predicting the dependent variable Internal Audit Effectiveness (IAE). It suggests that a unit increase in management support results in a 0.338 standard deviation rise in Internal Audit Effectiveness (IAE), or that a unit increase in management support results in a 33.8 percent improvement in internal audit effectiveness.

**Table 4.18: Regression Coefficients of the Study Variables**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.575	2.015		.781	.437		
	MS	.338	.093	.325	3.634	.000	.280	3.577
	IAI	.189	.089	.196	2.125	.037	.263	3.798
	IASC	.186	.082	.169	2.282	.025	.407	2.454
	IAQ	.237	.072	.298	3.304	.001	.275	3.635
a. Dependent Variable: Internal Audit Effectiveness (IAE)								

**Source: SPSS Regression Output, (2021)**

As depicted in Table 4.18 above, the estimated model is as below:

$$Y(\text{IAE}) = 1.575 + 0.338X_1 + 0.189X_2 + 0.186X_3 + 0.237X_4$$

Internal audit quality has a Beta of 0.237, which is the second most positive and noteworthy value. This means that a unit increase in internal audit quality results in a 0.237 standard deviation increase in internal audit effectiveness (IAE), or that a unit increase in internal audit quality results in a 23.7 percent increase in internal audit effectiveness. Internal auditor independence (0.189) came in third place as the third most favorable and significant characteristic. It signifies that a unit increase in internal auditor independence leads to a 0.189 standard deviation rise in Internal Audit Effectiveness (IAE), or that a unit increase in internal auditor independence leads to an 18.9% increase in internal audit effectiveness. Internal audit staff competence's Beta rating was the fourth and final highest positive and significant value (0.186). This means that a unit increase in internal audit staff competence leads to a 0.186

standard deviation increase in Internal Audit Effectiveness (IAE), or that a unit increase in internal audit staff competence leads to an 18.6% increase in internal audit effectiveness.

The F-statistics (90.436) are large, and the accompanying p-value is significant (0.0001) or less than the alpha value of 0.05, according to ANOVA Table 4.19 below. This indicates that the estimated linear regression model line does not have a slope of zero, indicating that all four predictor variables (management support, internal auditor independence, internal audit staff competence, and internal audit quality) have a linear relationship with Internal Audit Effectiveness (IAE). This indicates that the four predictor variables have a significant impact on Internal Audit Effectiveness (IAE).

**Table 4.19: The ANOVA Result of the Regression Analysis**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2013.261	4	503.315	90.436	.0001 <sup>b</sup>
	Residual	473.062	85	5.565		
	Total	2486.322	89			
a. Dependent Variable: Internal Audit Effectiveness (IAE)						
b. Predictors: (Constant), Internal Audit Quality, Internal Audit Staff Competence, Management Support, Internal Auditors Independence						

**Source: SPSS Regression Output, (2021)**

From the Table 4.20 of the regression model summary, the coefficient of determination ( $R^2$ ) was 0.810 demonstrated that the four dimensions of independent variables (management support, internal auditor independence, internal audit staff competence, and internal audit quality) could explain 81.0 percent of total Internal Audit Effectiveness (IAE), while the remaining 19.0 percent of the variations could be accounted for by other factors, which could be beyond the scope of this study. It also means that the model was reasonably fit and that the independent variables (management support, internal auditor independence, internal audit staff competence, and internal audit quality) and Internal Audit Effectiveness had a statistically significant connection (IAE).

**Table 4.20: Model Summary of the Regression Analysis**

Model Summary <sup>b</sup>			
Model	R	R Square	Adjusted R Square
1	.900 <sup>a</sup>	.810	.801
a. Predictors: (Constant), Internal Audit Quality, Internal Audit Staff Competence, Management Support, Internal Auditors Independence			
b. Dependent Variable: Internal Audit Effectiveness (IAE)			

Source: SPSS Regression Output, (2021)

#### 4.6. Hypothesis Test Results

The multiple regression model in Table 4.18 above was used to test hypotheses concerning the factors affecting internal audit effectiveness based on the unstandardized beta coefficient with 95% confidence level and p-value to test whether hypothesis is accepted or rejected.

##### Hypothesis - 1

**H<sub>a1</sub>**: Management support has a positive and significant effect on effectiveness of internal audit.

Table 4.18 shows that the unstandardized beta coefficient for management support was positive, with a significant p-value ( $\beta_1=0.338$ ,  $p=0.000$ ), indicating that management support has a positive and significant effect on internal audit effectiveness. It means that one standard deviation increase in management support is followed by 0.338 standard deviation increases in internal audit effectiveness (IAE). Therefore, the null hypothesis was rejected and the alternative hypothesis H<sub>a1</sub> was accepted. As a result, the data do not support the null hypothesis, forcing the researcher to accept the alternative hypothesis, which states that management support has a positive and significant effect on internal audit effectiveness in Ethiopian non-governmental organizations. Therefore, the alternative hypothesis one is accepted and the study concludes that management support has a positive and significant influence on internal audit effectiveness in the INGOs in Ethiopia. This finding was similar with the finding of Mihret and Yismaw (2007); Solomon (2018).

## **Hypothesis – 2**

**H<sub>a2</sub>:** Internal auditor's independence has a positive and significant effect on effectiveness of internal audit.

The regression analysis as shown in Table 4.18 confirms that the unstandardized beta coefficient for internal auditor's independence was positive and p-value was significant ( $\beta_1=0.189$ ,  $p=0.037$ ) showing that internal auditor's independence has a positive and significant effect on internal audit effectiveness. It means that one standard deviation increase in Internal auditor's independence is followed by 0.189 standard deviation increases in internal audit effectiveness (IAE). Therefore, the null hypothesis was rejected and the alternative hypothesis H<sub>a2</sub> was accepted. Hence, the results fail to support the null hypothesis and the researcher forced to accept the alternative hypothesis two, which hypothesized that internal auditor's independence has a positive and significant effect on internal audit effectiveness in the INGOs in Ethiopia. Therefore, the alternative hypothesis two is accepted and the study concludes that internal auditor's independence has a positive and significant influence on internal audit effectiveness in the INGOs in Ethiopia. This finding was similar with the finding of Hailemariam (2014).

## **Hypothesis – 3**

**H<sub>a3</sub>:** Internal audit staff competence has a positive and significant effect on effectiveness of internal audit.

The regression analysis as shown in Table 4.18 confirms that the unstandardized beta coefficient for internal audit staff competence was positive and p-value was significant ( $\beta_1=0.186$ ,  $p=0.025$ ) showing that internal audit staff competence has a positive and significant effect on internal audit effectiveness. It means that one standard deviation increase in internal audit staff competence is followed by 0.186 standard deviation increases in internal audit effectiveness (IAE). Therefore, the null hypothesis was rejected and the alternative hypothesis H<sub>a3</sub> was accepted. Hence, the results fail to support the null hypothesis and the researcher forced to accept the alternative hypothesis three, which hypothesized that internal audit staff competence has a positive and significant effect on internal audit effectiveness in the INGOs in Ethiopia. Therefore, the alternative hypothesis three is accepted and the study concludes that internal audit staff competence has a positive and significant influence on internal audit

effectiveness in the INGOs in Ethiopia. This finding was similar with the finding of Hailemariam (2014) and Medhanit (2016).

#### **Hypothesis – 4**

**H<sub>a4</sub>:** Internal audit quality has a positive and significant effect on effectiveness of internal audit.

The regression analysis as shown in Table 4.18 confirms that the unstandardized beta coefficient for internal audit quality was positive and p-value was significant ( $\beta_4=0.237$ ,  $p=0.001$ ) showing that internal audit quality has a positive and significant effect on internal audit effectiveness. It means that one standard deviation increase in internal audit quality is followed by 0.237 standard deviation increases in internal audit effectiveness (IAE). Therefore, the null hypothesis was rejected and the alternative hypothesis H<sub>a4</sub> was accepted. Hence, the results fail to support the null hypothesis and the researcher forced to accept the alternative hypothesis four, which hypothesized that internal audit quality has a positive and significant effect on internal audit effectiveness in the INGOs in Ethiopia. Therefore, the alternative hypothesis four is accepted and the study concludes that internal audit quality has a positive and significant influence on internal audit effectiveness in the INGOs in Ethiopia. This finding was similar with the finding of Cohen and Sayag (2010) and Arefayne (2019).

**Table 4.21: Summary of the Hypothesis Results**

<b>Hypothesis</b>	<b>Proposed Effect</b>	<b>Actual Effect on Internal Audit Effectiveness</b>	<b>Supported or Not Supported</b>
H <sub>a1</sub>	+	+	Supported
H <sub>a2</sub>	+	+	Supported
H <sub>a3</sub>	+	+	Supported
H <sub>a4</sub>	+	+	Supported

*Source: Survey Data (2020)*

# **CHAPTER FIVE**

## **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1. Introduction**

This chapter consists of the summary of the findings, conclusions drawn from the analysis part and the recommendations forwarded by the researcher in order to improve the effect of factors affecting the internal audit effectiveness in the INGOs in Ethiopia.

### **5.2. Summary of the Findings**

This study was aimed to investigate factors determining the internal audit effectiveness in the case of selected INGOs in Ethiopia.

The descriptive analyses of the management support dimensions have scored a composite statistics result of (mean=3.93 and SD=0.65), this showed that the management support internal audit function by establishing policies, regulations and allocates enough resources in recruitment and training of Internal Audit staff. Also the management supports the internal audit by accepting and implementing internal audit findings on time in INGO's in Ethiopia. The managements have awareness on the internal audit department's needs to provide the required resources, involved in planning the internal audit, directly receive reports of the internal audit team's and generally the management considers the internal audit department as a value-adding service in the INGO's in Ethiopia.

Internal auditors' independence dimensions received a composite statistics value of (mean=3.94 and SD=0.69), indicating that internal auditors have unrestricted access to records and other people during the auditing process, and their reports are always objective. Internal auditors operate independently, can audit any issue, and have access to any necessary information, whether or not it's classified. In addition, the auditor participates in the design of organizational systems and procedures for regulating their procedures; the auditor's team is rotated so that they can cover a variety of assignments; and terminating the auditor's work requires approval from the IA committee and/or the board of directors. In addition, the Chief Internal Auditor has complete autonomy in determining the scope of his job, reports directly to the board of directors, and maintains a regular and direct working relationship with

management. Internal audit departments are generally under the leadership of Chief Internal Auditors.

Internal audit staffs are competent in skills, knowledge, quantity, and perform their auditing duties with modern technology that uses computerized data tools and IA software in international NGO's in Ethiopia, in step with the composite statistics results of Internal Audit Staff Competence items scored (mean=3.86 and SD=0.74). Internal auditors are committed to ongoing professional growth and training, allowing them to audit and assess each action on time and within the scope of auditing activities planned.

The internal audit quality of INGOs was maintained by the internal audit department through supervising and evaluating the organization's accounting system, ensuring compliance of the internal audit with established policies, plans, and procedures, examining financial reports before external audit, and conducting detailed tests of transaction and financial balances, according to the composite statistics result of Internal Audit Quality items scored (mean=3.96 and SD=0.71). Beside this the internal auditors kept the internal audit quality of the INGOs by securely using documents and IT database, completely planning the annual audit plan, auditing areas that are very significant to their organization and covering all organizational units and issues. Also the internal auditors kept the internal audit quality of the NGOs by submitting a relevant and comprehensive audit response to the auditees in writing, performing regular follow-up to examine actions taken and to correct the problems found and they also developed procedures and conducted economic and financial audits. Finally, the study indicated that the internal audit quality of the NGOs was kept due to the presence of reliable, adequate and applicable internal control system.

The composite statistics result of internal audit effectiveness items was (mean=3.94 and SD=0.68), this result indicated that in order to increase the internal audit effectiveness, the internal auditors effectively identify and report noncompliance reports that are reliable and significant to the organization by providing useful recommendations and constructive criticisms on non-compliances activities in line with the organization policies, procedures and process. Aside from that, the internal audit communicated the audit results in a timely manner, increased the effectiveness of the internal control process, and built a follow-up process to ensure that remedial actions were implemented efficiently. In order to improve internal audit

effectiveness, the internal audit looked at the risk of fraud, how the organization handles fraud risk, and whether the risk responses are suitable and aligned with the risk appetite of the organization.

The correlation results indicated that, in the INGOs in Ethiopia, there was a positive and significant relationship between all the four dimensions of the independent variables and internal audit effectiveness at 1% ( $p < 0.01$ ) level of significance. The finding also indicated that there was a very strong and positive relationship between management support and internal audit effectiveness ( $r = 0.840$ ), followed by internal audit quality ( $r = 0.835$ ), internal auditor's independence ( $r = 0.819$ ) with internal audit effectiveness. But only internal audit staff competence with ( $r = 0.753$ ) have a strong and positive relationship with internal audit effectiveness as a rule of thumb described in Bhattacharjee (2012).

The INGOs in Ethiopia found that all four independent factors have a positive and substantial effect on internal audit effectiveness, according to the regression results. The regression results also revealed that, when compared to other factor dimensions, management support has the greatest positive and significant beta value of 0.338 in Ethiopian INGOs, implying that management support has the most influential effect on internal audit effectiveness, followed by internal audit quality which has scored the second highest positive and significant beta value of (0.237) and internal auditor's independence (0.189) respectively. Finally internal audit staff competence has scored the least positive and significant beta value of (0.186), this shows that internal audit staff competence has the least positive and significant effect on internal audit effectiveness. The value of  $R^2$  is 0.810, demonstrates that 81.0% of the variation of internal audit effectiveness in the INGOs in Ethiopia was explained by the four independent variables dimensions. The rest 19.0% was due to other factors, which is out of the scope of the study.

The researcher was forced to reject the null hypothesis and accept the alternative hypothesis after the hypothesis test revealed that the four independent variables dimensions have a positive and substantial effect on internal audit effectiveness.

### **5.3. Conclusions**

The goal of this study was to see the characteristics that influence the effectiveness of internal auditing during a group of Ethiopian non-governmental organizations. Internal audit effectiveness within the study region was influenced by management support, internal audit

quality, auditor independence, and internal audit staff competency characteristics, as shown by descriptive statistics.

The correlation analysis results show a strong positive and significant relationship between independent variables (i.e. management support, internal auditor independence, internal audit staff competence, and internal audit quality) and dependent variable (i.e. internal audit effectiveness) in Ethiopian INGOs. Management support and internal audit effectiveness had the greatest and strongest association coefficient. Internal audit quality came in second with a very strong correlation coefficient, followed by internal auditor independence and internal audit effectiveness. Internal audit staff competence and internal audit effectiveness had the weakest and most positive association. As a result, the study found that management support, internal audit quality, internal auditor independence, and internal audit staff competence have a positive and significant association with internal audit effectiveness in the study area at a 1% level of significance.

The multivariate analysis of the independent variables (management support, internal auditor's independence, internal audit staff competence, and internal audit quality) and therefore the variable quantity (internal audit effectiveness) in Ethiopian INGOs revealed that management support contributed the foremost to explaining the variable (internal audit effectiveness), followed by internal audit quality, internal auditor's independence, and internal audit staff competence. Internal audit staff competence criteria have the smallest amount impact on internal audit effectiveness, as evidenced by this. The value of  $R^2$  is 0.810, demonstrates that 81.0% of the variation of internal audit effectiveness in INGOs in Ethiopia was explained by the four factors that can affect the internal audit effectiveness. The rest 19.0% was due to other factors, which is out of the scope of this study. Therefore, alternative hypothesis was accepted and the null hypothesis was rejected and the study concludes that the four factors or (management support, internal audit quality, internal auditor's independence and internal audit staff competence) factors have a positive and significant influence on the internal audit effectiveness in the INGOs in Ethiopia.

## 5.4. Recommendations

This study was aimed to investigate factors affecting the internal audit effectiveness in the case of selected INGOs in Ethiopia. Based on the findings and conclusions reached, the researcher forwarded the following recommendations, which may have managerial implications:

- As the survey results showed, INGOs should do more to improve the internal audit effectiveness of the organization by providing more management support, increasing internal auditor's independence, increasing the internal audit staff competence and which in turn results in increasing of internal audit quality.
- To alleviate the internal auditors competency and capacity building training gaps, management is recommended to provide internal auditors with regular training to ensure competence as well as awareness of changes in the internal audit framework announced by professional bodies such as the Institute of Certified Public Accountants and the Institute of Internal Auditors, as well as those promulgated by development agencies such as the IMF, the World Bank, and the UNDP, all of which support the improvement of corporate governance in NGOs.
- Management is recommended to develop a policy for allocating resources to the inner audit function so on confirm that the inner audit function is satisfactorily supported so on boost its operations while maintaining its independence and integrity. As a result, a mechanism from the management team is required to create sure that the inner audit function's suggestions are executed on a timely basis so on boost internal audit efficiency and effectiveness.
- It is recommended to implement a monitoring and assessment system to assess the independence of internal auditors. The autonomy of the interior auditor was a significant think about the interior audit function's overall effectiveness. So as to facilitate the inner audit process, management must design means to make sure that internal auditors have free and straightforward access to records and employees within the firm. In order to improve the efficacy of the internal audit function, it is also necessary to ensure the impartiality of internal audit reports.
- Management's commitment and support are essential as the lack of this may send the wrong signal to the auditees and affect auditee attitudes and the level of support

accorded in meeting their departments' audit objectives, thereby compromising IA effectiveness and quality audit outcomes.

- INGOs should ensure that the audit process is carried out independently and objectively whilst ensuring that the IA department is staffed with highly qualified employees who are consistently trained and developed to conduct IA effectively.

## **5.5. Implications for Future Research**

This study was conducted to investigate factors affecting the internal audit effectiveness in case of selected INGOs in Ethiopia. The sample was drawn only from INGOs operating in Ethiopia, thus this study may be limited in its generalizability of the findings to others INGOs operating in other countries. So, future researchers should have to draw sample of respondents from other INGOs operating in other countries for the sake generalizing the results of the study.

Overall, by studying the characteristics of internal audit effectiveness, this study adds to the existing literature on internal audit. The report also offers practical advice to regulators and internal audit practitioners, implying that the effectiveness of internal audit is critical for INGOs in Ethiopia. Despite the importance of the findings, they must be seen in the context of a number of limitations. In order to keep the questionnaire short and increase response rates, the data obtained by survey has to be constrained. Furthermore, the statistics are limited to internal auditors' and managers' perceptions, and are not as thorough as they would be if other stakeholders, such as external auditors, were included. As a result, a future study could look into the perspectives of other parties, such as external auditors, on the effectiveness of internal audit. Other independent variables that can affect the internal audit effectiveness employed in this investigation, in addition to the four parameters used in this study, could be modeled. Furthermore, different methodologies such as interviews may be used to help explain aspects that affect internal audit effectiveness. Finally, it is also better if comparative study will be conducted between local and international NGOs in Ethiopia and in other countries with similar issue at hand so as to find out other factors that can affect internal audit effectiveness.

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## **APPENDIX**

### **Appendix 1: Research Questionnaires**

**Addis Ababa University**

**College of Business and Economics**

**Department of Accounting and Finance**

**Graduate Studies**

**Dear respondent,**

This research is conducted by Meseret Masresha, a student at Addis Ababa University for the partial fulfillment of the requirements for master's degree in Accounting and Finance. Currently, I am conducting a research entitled "Factors Determining the Effectiveness of Internal Audit in Non-Profit Organization: The Case of Selected International NGO's in Ethiopia."

I kindly would like to requisite you that you are one of the best and honorable reliable respondents selected on this study.

Please assist me in giving correct and complete information to present a representative finding on the current status of Factors Determining the Effectiveness of Internal Audit in Non-Profit Organization: The Case of Selected International NGO's in Ethiopia.

Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only.

Sincerely Yours,

**Meseret Masresha**

#### **Instructions**

1. No need of writing your name
2. For Likert scale type statements and multiple choice questions indicate your answers with a check mark (√) and by encircling the letter of your choice in the appropriate block.

N. B. If you have any additional comments, clarifications, information, and suggestions, you can contact the researcher in the following addresses:

Name: Meseret Masresha

Mobile: 251-9116-57186

E-mail: meseretmasresha@gmail.com

Thank you in advance for your invaluable cooperation and dedicating your time.

## **Part I: Demographic Characteristics of Respondents**

**Instruction:** Please indicate your answer by encircling the letter of your choice:

### **Section A: Questions to be filled by all respondents**

1. Gender:
  - a. Male (1)
  - b. Female (2)
2. Age:
  - a. 20-30 (1)
  - b. 31-40 (2)
  - c. 41-50 (3)
  - d. Above 50 years (4)
3. Educational level:
  - a. Diploma holder (1)
  - b. First degree holder (2)
  - c. Master's degree and Above (3)
4. Level of management
  - a. Senior (1)
  - b. Middle level (2)
  - c. Supervisor (3)
  - d. Audit Assistant (4)
5. Total service year within the current organization
  - a. Less than 2 years (1)
  - b. Between 3 and 5 years (2)
  - c. Between 6 and 10 years (3)
  - d. Above 10 years (4)

### **Section B: Questions to be filled by Internal Auditors only**

6. Please describe your highest educational qualification:
  - a. Diploma in accounting (1)
  - b. Bachelor's degree (2)
  - c. Master's degree and above (3)
7. Please describe the length of service/experience in the internal audit department:
  - a. Less than 2 years (1)
  - b. 2-6 years (2)
  - c. 6-10 years (3)
  - d. More than 10 years (4)
8. Professional certification
  - a. Certified Internal Auditor (CIA) (1)
  - b. Certified Public Accountant (CPA) (2)
  - c. Certified Management Accountant (CMA) (3)
  - d. Other certification (4)
  - e. Not Certified (5)

**Part II: Questions Related to Factors Determining Effectiveness of Internal Audit**

**Section C: Management Support**

1. Have you been trained on audit related issues in the last year?
  - a. Yes (1)
  - b. No (2)
2. How often is the training carried out?
  - a. Monthly (1)
  - b. Quarterly (2)
  - c. Annually (3)
3. Please indicate to what extent you agree or disagree with the following statements on the influence of Management Support on Internal Audit Effectiveness in your organization by putting a tick against the options provided below. **1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A) and 5=Strongly Agree (SA)**

Code	Management Support	1	2	3	4	5
MS1	Management has put up well-established policies and regulations in recruitment of Internal Audit staff.					
MS2	Management allows internal audit employees to participate in training and development program in order to improve their skills and keep up the rapid changes in the field.					
MS3	The management allocates enough resources to internal audit function to hire the right number of high-quality audit staff.					
MS4	Management accepts and implements internal audit findings to the latter and on time.					
MS5	Management supports internal audit function by allocating sufficient funds annually to enhance achievement of its operation and work plans.					
MS6	Management is aware of the internal audit department's needs and provides required resources					
MS7	The management is involved in planning the internal audit.					
MS8	Reports on the internal audit team's work is being delivered to the management.					
MS9	The management responds to the internal audit reports					
MS10	Management is sufficiently aware of the needs of internal audit.					

**Section D: Internal Auditors Independence**

4. Is there an audit committee in the organization?
  - a. Yes (1)
  - b. No (2)
5. Who/What determines the scope, time and extent of internal auditing procedures and reports?
  - a. Audit Charter (1)
  - b. Top Management (2)
  - c. Audit committee (3)
  - d. Chief Internal Auditor (4)

6. Please indicate the extent to which the reporting level of the Chief Internal Auditor affects the effectiveness of internal audit function
- High (1)
  - Medium (2)
  - Low (3)
7. To what extent are the following statements true regarding internal auditors independence in your organization? Use the following scale provided. **1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A) and 5=Strongly Agree (SA)**

Code	Internal Auditors Independence	1	2	3	4	5
IAI1	Internal auditors have free access to records and people during auditing process					
IAI2	The Chief Internal Auditor has freedom in scope determination					
IAI3	The Chief Internal Auditor reports directly to the board of directors					
IAI4	Reports prepared by internal auditors are always objective					
IAI5	The IA sometimes takes part in designing organizational systems and procedures for regulating their procedures.					
IAI6	The IA operates independently and can audit any issue it considers in need of auditing.					
IAI7	The IA can access any necessary information even if it is classified.					
IAI8	The IA team is rotated so that they can cover a variety of assignments.					
IAI9	The Chief Internal Auditor has regular and direct working relations with the general manager and the managerial team.					
IAI10	Terminating the work of the auditor requires the approval of the IA committee and or the board of directors.					

#### Section E: Internal Audit Staff Competence

8. Please indicate to what extent you agree or disagree with the statements provided on the effect of Internal Audit staff competence on internal audit effectiveness by putting a tick against the options provided: **1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A) and 5= Strongly Agree (SA)**

Code	Internal Audit Staff Competence	1	2	3	4	5
IASC1	Internal audit staff has professional experience and expertise in areas of governance, risk, finance, and technical knowledge required in the field of auditing.					
IASC2	Internal Audit employees regularly advance their knowledge through participating in training, seminars; sharpen their skills for better productivity					
IASC3	The audit procedures and evidence collections are completed on time, since enough skilled internal auditors are available or employed					
IASC4	All the audit staffs have sufficient skilled in auditing and most of them have certification in auditing.					

<b>IASC5</b>	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software.					
<b>IASC6</b>	The internal audit department has sufficient number of staffs who are responsible to undertake auditing activities.					
<b>IASC7</b>	Internal auditors are committed to continuous professional development and training					
<b>ICSC8</b>	It is possible to audit and review each activity on time, and cover the planned scope of auditing activities					

**Section F: Internal Audit Quality**

9. Please indicate to what extent you agree or disagree with the statements provided on the effect of Internal Audit Quality on internal audit effectiveness by putting a tick against the options provided: **1=Strongly Disagree (SD)**, **2=Disagree (D)**, **3=Neutral (N)**, **4=Agree (A)** and **5=Strongly Agree (SA)**

<b>Code</b>	<b>Internal Audit Quality</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>IAQ1</b>	The internal audits supervise and evaluate the accounting system of the organization					
<b>IAQ2</b>	There is reliable, adequate and applicable internal control system					
<b>IAQ3</b>	The internal audit ensures compliance with established policies, plans and procedures					
<b>IAQ4</b>	The internal audit examine financial report before external audit					
<b>IAQ5</b>	Detailed test of transaction and balances are performed by the internal audit					
<b>IAQ6</b>	Securely using of documents and information technology (IT) database					
<b>IAQ7</b>	The annual audit plan is determined completely by the internal auditor.					
<b>IAQ8</b>	The areas audited are very significant to the organization.					
<b>IAQ9</b>	The IA can cover all organizational units and all issues.					
<b>IAQ10</b>	The response of auditees to the audit is submitted in writing and is relevant and comprehensive.					
<b>IAQ11</b>	There is a regular follow-up by the IA staff to examine actions taken to correct the problems found.					
<b>IAQ12</b>	The internal auditor also performs other activities such as developing procedures and conducting economic and financial audits.					

**Part III: Questions Related to Effectiveness of Internal Audit**

**Section G: Internal Audit Effectiveness**

10. When setting Organizational goals, is Internal Audit Function involved?
- Yes (1)
  - No (2)
11. Please indicate the extent to which an effective internal audit function reviews the reliability and integrity financial and non-financial information leading to credibility.
- High (1)

- b. Medium (2)
- c. Low (3)

**12.** Internal audit function is responsible for reviewing programs and operations to establish the extent to which results are consistent with organization’s goals.

- a. Wholly (1)
- b. Partially (2)
- c. Not at all (3)

**13.** To what extent are the following statements true regarding internal audit effectiveness in your organization? Use the following scale provided. **1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A) and 5 = Strongly Agree (SA)**

<b>Code</b>	<b>Effectiveness of Internal Audit</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>EIA1</b>	Internal audit effectiveness contributes to the achievement of the organization objectives					
<b>EIA2</b>	Internal audit effectiveness ensures that fraud is minimized in your organization					
<b>EIA3</b>	The noncompliance reports provided by internal auditors are reliable and significant to the organization.					
<b>EIA4</b>	Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems in the organization.					
<b>EIA5</b>	Internal auditors can effectively identify and report any non-compliance activities with the organization policies, procedures and process.					
<b>EIA6</b>	Internal audit communicates timely the engagement results					
<b>EIA7</b>	Internal audit improved the effectiveness of internal control process					
<b>EIA8</b>	Internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented					
<b>EIA9</b>	Internal audit evaluates the potential for the occurrence of fraud and how the organization manages fraud risk					
<b>EIA10</b>	Internal audit assesses that risk responses are appropriate and align with the organization’s risk appetite					

**Thank You for Your Cooperation!**

**Appendix 2: An Interview Guide**  
**Addis Ababa University**  
**College of Business and Economics**  
**Department of Accounting and Finance**  
**Graduate Studies**

**Dear Sir/Madam,**

The main objective of this interview is to explore information regarding Factors Determining Effectiveness of Internal Audit in Non-Profit Organization: The Case of International NGO's in Ethiopia and to have an in-depth response to the research problem in addition to the questionnaires distributed to staffs of selected International NGO's in Ethiopia. The interview will be made with selected managers and internal auditors of the selected International NGO who are familiar with the issue. The information you provide in response to the questions in the interview will be used as part of the data needed for a study on "Factors Determining Effectiveness of Internal Audit in Non-Profit Organization: The Case of International NGO's in Ethiopia".

I would like to assure you that the information you provide will be accessible only for academic purpose. Your involvement is regarded as a great input to the quality of the research results. Thus, I believe that you will enlarge your contribution by participating in the study.

Thank you very much for your valuable time and thoughtful response.

Kind regards,

Meseret Masresha

N. B. If you have any additional comments, clarifications, information, and suggestions, you can contact the researcher in the following addresses:

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Mobile: 251-9116-57186

E-mail: meseretmasresha@gmail.com

Thank you in advance for your invaluable cooperation and dedicating your time.

**Interview Question for Managers and Internal Auditors of International NGO's in  
Ethiopia**

- a. Does management have well-established policies and regulations in recruitment of Internal Audit staff and allocate enough resources to internal audit function to hire the right number of high-quality audit staff?
- b. Does management allow internal audit employees to participate in training and development program?
- c. What looks like the acceptance and implementations of internal audit findings by management of the NGOs?
- d. What is the awareness and involvement of the management internal audit department's needs and planning?
- e. What looks like the Internal auditors freedom concerning on scope determination, access to records and people during auditing process, operating independently and rotation of IA teams?
- f. What is professional experience of the internal audit staffs and their participation for regularly advancing their knowledge?
- g. Did your audit staffs used modern technology, like computerized data tools and specific IA software in their department?
- h. Do you think your internal audit department has sufficient number of staffs who are committed to continuous professional development and training?
- i. How is your organization internal audit quality maintained?
- j. What are the factors affecting the effectiveness of internal audit in your organization?

**Thank You for Your Cooperation!**