

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



Factors influencing effectiveness of internal  
audit in public sector offices in East Shewa,  
Ethiopia

By  
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Addis Ababa, Ethiopia

## **DECLARATION**

I hereby declare that this work entitled “**Factors influencing effectiveness of internal audit in public sectors of East Shewa Zone, Ethiopia.**” is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

**By SisayGebre**

Signature \_\_\_\_\_

Date \_\_\_\_\_

**Advisor’s Approval**

This Research Project paper has been submitted for examination with my approval as a University advisor.

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**Date** \_\_\_\_\_

## **Certification**

This is to certify that the Research Project Paper prepared By SisayGebre ,entitled **factors influencing effectiveness of the internal auditin public sector offices in east Shewa, Ethiopia** is submitted in partial fulfillment of the requirements for the degree of Masters of Science in Accounting and Auditing complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

### **Approval of Board of Examiners**

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### **Internal Examiner Signature & Date**

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### **Chair of Department or Graduate Program Coordinator**

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## ACRONYMS

<b>CIA</b>	Competency of internal auditors
<b>CFIA</b>	Competency Framework for Internal Auditing
<b>ERP</b>	Enterprise Resource Planning
<b>3Es</b>	Effective, Efficient and Economical
<b>EIAF</b>	Effectiveness of Internal Audit Function
<b>IA</b>	Internal Auditors
<b>IAE</b>	Internal Audit Effectiveness
<b>IAF</b>	Internal Audit Function
<b>IAD</b>	Internal Audit Department
<b>IIA</b>	Institute of internal auditors
<b>IT</b>	Information technology
<b>MoFED</b>	Ministry of finance and Economic Development
<b>MS</b>	Management Support
<b>OAG</b>	Office of the Audit General
<b>SAP</b>	Statement on Auditing Practice
<b>SPSS</b>	Statistical Package for Social Science

## **ABSTRACT**

Generally, internal audit has become an essential management tool for achieving effective control in both public and private organizations. It is also important as a means to promote governance, enhance recognized efficiency and promote public services. The main purpose of the study is to identify the factors influencing effectiveness of internal audit in public sector offices of east Shewa zone, Ethiopia. To address this purpose, the study required to answer the following research question: To what extent these factors influence effectiveness of internal audit and which of them is the most important for internal audit effectiveness. The study adopted a cross-sectional descriptive research design using quantitative method for data collection and analysis purpose. The sample was selected by purposive sampling selection techniques. The study engage using primary data that were collected through survey from internal auditors and managers of public sectors. The researcher analyzed the collected data using descriptive statistics and presented the data in terms of percentages, frequency distribution and tables. The research findings indicated that the four factors such as; independence, competency, management support and availability of information technology resource have influence on effectiveness of internal audit in public sectors. The study recommended the concerned government body and stake holders should work to make effective the independence, the competence, the management support, and availability of IT resources of internal audit to help them to perform their professional duties and responsibilities. Finally, the study proposed that future research should focus on all public sectors in Ethiopia, and that a broad based study on role of Internal Audit on organizational performance in both private and public organizations should also be carried out in future.

**Keywords:** Internal Audit, competence, independence, management Support, information technology and internal audit effectiveness.

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## **CHAPTER ONE**

### **1. Introduction**

In this chapter, the background to the research problem are given that is showing a brief picture of the problem which are followed a statement of the research problem, the objectives of the study are spelt out, research questions are posed; the significance of the study captured, followed by the limitations and organization of the study which ought to easy the work of the researcher.

#### **1.1. Background of the Study**

A country that is administered in a democratic policy needs to be accountable in its use of public money and in providing effective, efficient and economical service delivery. To achieve those government objectives applying internal audit function will be the major mechanism for controlling and using of all scarce resources available in the public sectors organization.

In addition, internal audit function helps government organization to ensure accountability and integrity, improves the execution of government programs and develops a sense of trust and confidence among citizens and the various stakeholders in the public interest (Baharud-din et al, 2014).

In the past, the internal auditors were seen just as an assistant of accountant's but recently internal audit is certainly is considered an independent profession, which is playing a significant role in the management of organizations. For instance, the role of internal auditing is to assess the effectiveness of the internal control system and to find out

whether the system is functioning as intended (Fadzil, Haron&Jantan, 2008). The Institute of Internal Auditors defines Internal Audit as follows: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (IIA Inc - January 2011)

However, the internal auditors faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development and lack of IT resources. So, it is important to have effective internal audit unit as part of modern governance system in public sector offices. And also, it will propose that internal auditors and key employee of public bureaus, are expected to work independently and objectively to enhance high quality of public services, achieve good internal control system, avoid corruption, ensure good governance system, promote accountability and greater transparency (Coram et al, 2008; Van Peurse 2005; Belay, 2007).

Many studies conducted on the above issues while putting focus on the underlying factors on the effectiveness of internal audit especially in public sector has been lacking and no research has focused on factors influence internal audit effectiveness in public sectors of East Shewa zone Ethiopia.

Therefore, this study aims to examine the factors affecting the internal audit effectiveness in the public sector in East Shewa zone, Ethiopia. Mostly, Competency of IAs affects the ability of the auditors to perform the systematic and discipline auditing, which plays key role in improving IA effectiveness. An effective government audit activity needs IAD independence and objectivity. The management support with resources and commitment to implement the internal audit recommendations is also essential in attaining audit effectiveness (Mihret&Yismaw, 2007). Lastly, efficient and effective resources of IT technology in public sector are also essential in achieving internal audit effectiveness.

## **1.2 Statement of the Problem**

Recently, the importance of IA has seen a rapid growth in public sectors to promote good governance by providing objective assessment of whether the public resources are adequately utilized in order to achieve favorable results. Also, the significance of internal audit to make sure the accuracy and reliability of information that provided to upper management.

Because, it makes line managers conscious of their responsibility; acts as a consultant in monitoring risk; identifies weakness of internal control system; facilitates the implementation of risk management and contributes to the appropriateness of procedures and operations of the organization Cohen A, Sayag G (2010) and Arena M, Azzone G (2009).

However, despite of IA roles in public sectors of east Shewa, Ethiopia; there have been many complaints on the management of public funds and internal audit being not as effective in detecting and preventing the misappropriation of public funds. This is lack of

internal auditor credibility in public sectors' governance may have greater implication for less effectiveness of internal auditors in public offices. In addition, IAF in Ethiopian public sectors is characterized by gaining less management respect; lack of organizational independence; absence of professional development; delegating internal auditors too many tasks and being ignored (conflict of interest) ,Minister of Finance and economic Development (2004 E.C). The cause of this problems are a mismanagement in the process of spending public money that has been highlighted by the Federal Auditor General and Oromia Auditor General in the annual report (2015/2016).

For that reason the question raised in this study: “What are the factors that influence internal audit effectiveness in the Public Sectors? In recent years, researchers have been done very little to analyze the factors influencing the effectiveness of internal audit in public sectors of East Shewa, Ethiopia. This study motivated the researcher to investigate the effectiveness of the internal auditors as means for improving the management of Public Sectors and intended to answer those questions.

The study addresses whether competency of IA's, independency of IA's, management's support and availability of IT influence the internal audit effectiveness. Besides, this study's purposes are to examine the influence of the mentioned factors on the internal audit effectiveness. Our study differs from others in; (i) providing empirical evidence regarding the influence of management support on the internal audit effectiveness which has not been well researched before in public sector organizations as referred by Wubishet&Dereje, (2014). (ii) presenting an argument(reason) on the influence of the mentioned factors on the internal audit effectiveness based on two respondents' samples;

and (iii) being the first that examines this influence in a public sector in the East Shewa, Ethiopia.

Thus, this study required to fill the existing research gap in the public sectors, our study provides an important evidence regarding the influence of mentioned factors on the effectiveness of internal audit. Our results present the role of these factor in improving and enhancing the internal audit effectiveness.

### **1.3 Objective of the Study**

#### **1.3.1 General Objective**

The general objectives of this study is to identify the factors influencing the internal audit effectiveness in public sectors of East shewa Zone, Ethiopia.

#### **1.3.2 Specific Objective**

- ❖ Specially, the research pursues to achieve the following specific objectives:-
- ❖ To identify the effect of management support for IAE in public sectors East shewa Zone, Ethiopia.
- ❖ To investigate the independence of internal auditors for IAE in public sectors of East shewa Zone, Ethiopia.
- ❖ To examine the contributions of the competence of internal auditors for IAE in public sectors of East shewa Zone, Ethiopia.
- ❖ To assess the effect of the availability of Information technology for IAE in public sectors of East shewa Zone, Ethiopia.

## **1.4 Research Questions**

This study therefore, intended to investigate factors influencing the effectiveness of internal audit in public sectors of East Shewa Zone, Ethiopia. In addition, this study aims to address the following research questions which were modified from related different literature reviews:

- ❖ To What extent the management of PS support the IAs to enhance the IA effectiveness?
- ❖ What effect does independence of internal auditors has on IA effectiveness?
- ❖ To what extent the competence of internal auditors affect IA effectiveness?
- ❖ What effect does availability of Information technology in public sectors has on internal audit effectiveness?

## **1.5 Significance of the Study**

The internal auditors have a significant influence to control any non-compliance activity in line with the established policies, plans, procedures, laws and regulations, set by the government which could have a significant impact on the organization's operations. The internal auditors are also essential to add value to the organizations, to avoid failure and to save the operating and administration costs in accordance with the organization's policies and procedures.

Therefore, this research is very essential to show the effectiveness of the internal auditors by assessing the factors which influences the public sectors internal audit effectiveness. In addition this study has the potential of improving internal audit effectiveness in the

public sector with a view to achieving an effective and efficient public governance and strength the financial accountability in public sectors of the zone. Finally, the effect of this research will be an important for the empirical evidences for the public sectors, government, policy planners and the public at large and it could use top management and development policy makers and for the future researchers also important to develop a conceptual literature development.

### **1.6 Scope and Limitation of the Study**

This study examines and attempts to evaluate the factors influencing the effectiveness of internal audit in public sector in its entire effect focusing on public sectors of East Shewa Zone, Ethiopia. The target groups of the population are the financial officer and the internal auditor of auditee. However, this study has methodological limitations. It is questionnaire-based, and a measure of the variables, both the dependent and independent variable, is established according to the perceptions of the managers and internal auditors. Besides that, this research used very small number of populations, so the result will be difficult to be generalized to measure factors affecting the effectiveness of internal audit.

### **1.7 Organization of the Paper**

This study was organized into five chapters; chapter one presents introduction of the study, the literature review part of the study is presented in chapter two, chapter three the Research methodology, chapter four data analysis and presentation and finally Chapter five deals about conclusion and recommendations.

## **1.8 Summary of the Chapter**

This chapter introduced the study through a detailed outline of the project and contained within as sub-sections in the introduction section which are as follows; background of the problem, statement of the problem, research question, research objectives, importance of the study, scope and limitation of the study and organization of the study. Next to this chapter the literature review continued here after.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents review of literature of the factors that influence the internal audit effectiveness in public sectors of East Shewa, Ethiopia. It consists of general overview about internal auditing and internal audit effectiveness and its factors. In general, this chapter synthesized existing theoretical review, empirical review of research outcomes, conceptual framework (the formulation of the hypotheses) research in the area of internal audit effectiveness and identifying the gap in the existing literature and ends by summarizing the review.

#### **2.2 Theoretical Literature review**

In this section it presents theoretical review of relating to internal audit such as IA theory, the process of IA, internal audit in public sectors and Effectiveness of IA and IAE framework.

##### **2.2.1 Internal auditing**

Auditing is originally a financial management concerned with assessing practice for the internal financial status of the organization and the evaluations of the financial performance of the organization. After the revolution and beginning the 20th century the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditor's Report (Manal, 1999). Since

then, the auditing practices have evolved over the years and develop into the broader aspects. It also provides feedback on organization financial information and reporting. It also becomes a tool for an analysis of any fraudulent activity, potential and actual within the organization. In a generic sense auditing involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public. It was also an independent appraisal function established within an organization to identify and evaluate its activities as a service to the organization.

Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: an independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It also include monitoring, assessing, and analyzing organizational risks and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).

In addition, internal auditing may analyze strengths and weaknesses of an organization's internal control, considering its governance, organizational culture, and related threats and opportunities for improvement which can affect whether the organization is able to

achieve its goals. The analysis assesses whether risk management identifies the risks and puts controls in place to manage public funds in an effective and efficient manner.

According to Okafor & Ibadin (2009) they argue that the internal audit exercises a critical role in improving corporate governance in organizations. Internal auditing works with those charged with governance, such as board, audit committee, senior management or, where appropriate, an external oversight body, in ensuring that appropriate systems of internal control are designed and implemented.

Internal auditing can be described as a five-step process. First the internal auditors need to identify and understand the criteria to which the condition must be compared. Secondly the internal auditors should collect evidence about the organisation. Thirdly they have to analyse and evaluate the evidence. Fourthly they should compare the evidence found with the predetermined criteria. Lastly they should communicate the results to the intended users. (Kagermann et al, 2008)

### **2.2.2 Internal Audit in the public sector**

As is true for all internal auditors, public sector internal auditors are called upon to assist organizations in improving their operations. The public sector internal audit function is an element of a strong public sector governance foundation. Most public sector internal auditors also play a role in their entity's accountability to the public as part of the check-and-balance process.

The diverse nature of the public sector places increasing importance and value on a common understanding of independence as it is key to any auditor's credibility.

As internal auditors are an integral part of the organization, the achievement and maintenance of independence is even more challenging and its function can be organized and performed at various levels within an entity, or within a broader framework that covers a set of similar entities. The same principles and rules apply to these different organizational levels of internal auditing.

When observing the public sector and international institutions in general, the function of IA is essential for effective management. As the Institute for Internal Audit (2012) points out the IA function in the public sector is of great importance and must be structured in a manner that ensures the fulfillment of their accountability and transparency to the general public, while at the same time allows them to efficiently, effectively and cost-effectively meet its goals. For the IA in the public sector the key point is the credibility and the level of independence with which this function is performed.

One must keep in mind that the staff of these departments is also an integral part of particular public organizations, so credibility and independence, as well as their advisory role, are becoming an increasing challenge and the point of potential conflicts of interest.

### **2.2.3 Internal Audit Effectiveness**

A number of researches had been done in the area of the IA in private and public sector. The fact that effective IA can contribute to the significant impact to the quality of management has raised the interest for researchers to explore into this matter. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large.

Effective internal audit system helps in achieving performance, profitability and prevents in loss of revenues particularly in public sectors (Vijayakumar&Nagaraja, 2012), even though Pilcher Gilchrist and Singh (2011) observed that efficiency and effectiveness of audit in a public sectors context is more complex than in the private sectors. But then consideration must be given to the effectiveness of internal auditors particularly in the public sector organizations. It is quite interesting that audit effectiveness is an outcome of auditors' activities, duties, professional practices and responsibilities through a high commitment with audit standards, goals, objectives, policies and procedures (Ussahawanitchakit&Intakhan, 2011). In the same vein, Shoommuangpak and Ussahawanitchakit (2009) provided that audit effectiveness refers to "achieving audit's objective by gathering of sufficient and appropriate audit evidence in order to reasonable opinion regarding the financial statements compliance with generally accepted accounting principles." Also, Institute of Internal Audit (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved". In addition, Dhamankar&Khandewale (2003) studied on Effectiveness of Internal Audits and then found that it is accepted that internal audit is an important constituent of good corporate governance and effective internal auditing would be a strong tool in the hands of the management. In the same way, Belay (2007) ,Studied on Effective Implementation of Internal Audit Function to Promote Good Governance in the Public Sector then revealed that the existing internal audit function in the public sector has less satisfactory involvement to assess the effectiveness of governance structure due to lack of resources, poor leadership for internal audit function, absence of appropriate frame work to measure internal audit function performance.

Other study carried out by Mihret, D. G. & Yismaw, A. W. (2007) studied on the Internal audit effectiveness in an Ethiopian public sector case study that reveals that that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness.

In the same context, Ahmad, et al, (2009) made a study on the effectiveness of internal audit in Malaysian public sector and then the study discloses that the lack of audit staff is ranked as the major problem faced by internal auditors in conducting an effective internal auditing.

Furthermore, Arena & Azzone. (2009), made a studied to Identifying organizational drivers of internal audit effectiveness and the result of the survey shows that the effectiveness of internal auditing is influenced by: (1) the characteristics of the internal audit team, (2) the audit processes and activities, and (3) the organizational links. In another study carried out by Arena, M & Azzone, G. (2010) on Internal Audit Effectiveness on identifying relevant Drivers of Auditees Satisfaction then the analysis of the study showed that different factors are important to drive Internal Audit effectiveness. And auditee contribute toward internal audit effectiveness.

In a related study carried out by Cohen and Sayag (2010) on the effectiveness of internal auditing: An Empirical Examination of its Determinants in Israeli Organizations, hence the result of the study showed that the support of management is almost crucial to the operation and success of internal audit and other determinants of internal audit effectiveness derive from support of top management.

Additionally, IIA. (2010). Measuring Internal Audit Effectiveness and Efficiency. IPPF-Practice guide the finding reveals that internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated, and managed, it is an important element in helping an organization achieve its objectives.

Also study carried out by Unegbu, A.O & Kida, M. I.(2011) on the Effectiveness of Internal Audit as Instrument of Improving Public Sector Management. Then, the study showed that the Internal audit can effectively check fraud and fraudulent activities in the Public Sector and that Public Sec-tors in Kano State have significant numbers of Internal Audit Departments to function effectively. Moreover, Ussahawanitchakit&Intakhan (2011), conducted that Audit Professionalism, Audit Independence and Audit Effectiveness of CPAs in Thailand, then reveals that both audit professionalism and audit independence have a good positive impact on audit effectiveness but audit experience and ethical orientation do not moderate the relationship.

However, a study carried out by Badara, M. S, &Saidin, S. Z. (2013): Impact of the effective internal control system on the internal audit effectiveness at local government level and the result of the study reveal that effective internal control system Internal Control System can influence the effectiveness of internal auditors at local level.

The effectiveness of internal audit is very important issues especially when it comes to decision making, for example: If management believe that internal audit functions are ineffective, then their recommendations will carry little value from the side of decision makers (Burton, Emett, Simon & Wood, 2012).

Therefore, looking at the above previous studies on the internal audit effectiveness, they give more concerned on the private sectors, case study as well as literature research. Therefore, more studies on internal audit effectiveness should be carried out in the public sectors particularly local government level so that to contribute to the internal audit literature in the public sector and contribute toward internal audit effectiveness.

#### **2.2.4 Internal Audit Effectiveness frame work**

Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors (Dittenhofer, 2001). That is, effectiveness in terms of achieving the IA goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit (IA):

Undertakes an independent evaluation of financial and operating systems and procedures;

- ❖ Contributes to the achievement of organizational goals;
- ❖ Needs management's commitment to implement recommendations;
- ❖ Provides useful recommendations for improvements as necessary
- ❖ Affected negatively by lack of attention from management which in turn adversely affects the auditee attributes; and
- ❖ Management support is a natural quid pro quo for effective internal audit.

## **2.3 Empirical Review**

### **2.3.1 Factors influencing internal audit effectiveness**

This study aimed to identify the factors determining effectiveness of IA in Public sectors of east Shewa zone Ethiopia as follows below:

#### **2.3.1.1 Independence and objectivity of internal audit**

One of the factors that may influence effective audit activities is independence and objective of auditors as this would enable the completion of auditing without interference. Independence and objectivity of internal auditing in terms of assurance services and consultations are both importance and are closely linked to the freedom from interference on objectivity and compromise while auditing (AII, 1999). The independence and objectivity are key elements of the effectiveness of IA (Mutchler 2003; Ahmad et al. 2009; Al-Akra et al. 2016).

Internal audit independence, is best described as ‘operational independence’, assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest, inherent bias or undue external influence and it provides a service to management, reports to the Audit Committee and is ultimately accountable to the Chief Executive or the Board for the achievement of its objectives and the use of its resources. Internal audit independence is reinforced by specifying these arrangements in an internal audit charter. Objectivity is a required attitude for the delivery of internal audit services. It is a condition that allows internal auditors to judge matters on the evidence without the influence of personal considerations. Objectivity is reinforced by the rigorous application

of professional standards and by the vigilance of the Head of Internal Audit and individual internal auditors (Better Practice Guide Public sector IA, September 2012).

ISPPIA (Standard 1100) requires that the internal audit department must be independent and internal auditors must be objective in achieving their work to add value to the organization. For instance, the assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010). In addition Alzeban and Gwilliam (2014) also confirm that increasing weight is now being placed on the need for internal auditors to be independent and objective, even though they are normally employees of organizations. They stated lack of independence as the main obstacle to satisfactory internal audit performance in a number of developing countries (Alzeban&Gwilliam, 2014). Moreover, internal audit independence according to prior studies (Abu-Azza, 2012; Cohen and Sayag, 2010; Mihret et al., 2010), definitely relates with perceived effectiveness of IA.

Regardless of its importance, independence of IA has received minimal attention from researchers. Accordingly, this study enhances the findings of the earlier studies as it looks into the association between internal auditor independence and IA effectiveness.

### **2.3.1.2 Competence of Internal Audit**

Staff competence is an important key to the effectiveness of the internal audit activities (Al-Twajry et al. 2003; Alzeban&Gwilliam 2014). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlights the importance of internal audit team who possesses the knowledge, skills, and other competencies necessary to

perform their responsibilities (ISPPIA, Standard 1210). Indeed, internal auditors must collectively have the necessary education, professional qualifications, experience and training to be able to add value and improve the organization's operations (Mihret&Woldeyohannis 2008; Ali &Owais 2013). Internal audit team must have a competence to enable them to provide the high quality services. Besides that, they should have qualified internal audit from certificated agencies. Based on Mihret et.al (2010), both technical competence and continuous training are considered essential for internal audit effectiveness. Audit communication is the factors that can influence competence of internal audit departmental (A.Bailey, 2010).Other studies suggest that lack of competence of internal auditors isan obstacle to the effectiveness of IA in a number of African countries as Ethiopia, Ghana and Kenya (Mihret&Yismaw 2007; Onumah& Yao Krah 2012; Walter &Guandaru 20.12).

### **2.3.1.3 Management Support**

Management support and commitment have also been evidenced to impact IA effectiveness. In fact, successful IA function depends on the support demonstrated by the management on the process of auditing. It is important that managers acknowledge the fact that IA is a crucial process and activity like any other activities performed within the organization. IA audit process is likely to fail with resource (money and time) wasted without management commitment. According to Md Ali et al. (2007), IA within the context of state and local government of Malaysia directly relate to management style and their connections, relationships, and position in the social contract. In addition, Alzeban&Gwilliam (2014) found that management support was the most important factor

influencing IA effectiveness within the Saudi Arabian public sector organizations. They noted that IA effectiveness would be enhanced by hiring trained and experienced staff, and providing sufficient resources. The authors reached to the conclusion that management support for internal audit determines internal audit effectiveness.

#### **2.3.1.4 Information technology**

This century, technology has a rapid development. It is not doubtful that entities will use more technology now and in the future to management and audit. For instance, Krishna (2011) found that “effective use of audit technology tools is critical to the success of audit activity”, which will definitely improve the internal audit quality and eventually affect the effectiveness of IA. In addition, the study of Krishna (2011) found that “effective use of audit technology tools is critical to the success of audit activity”, which will definitely improve the internal audit quality and eventually affect the effectiveness of IA.

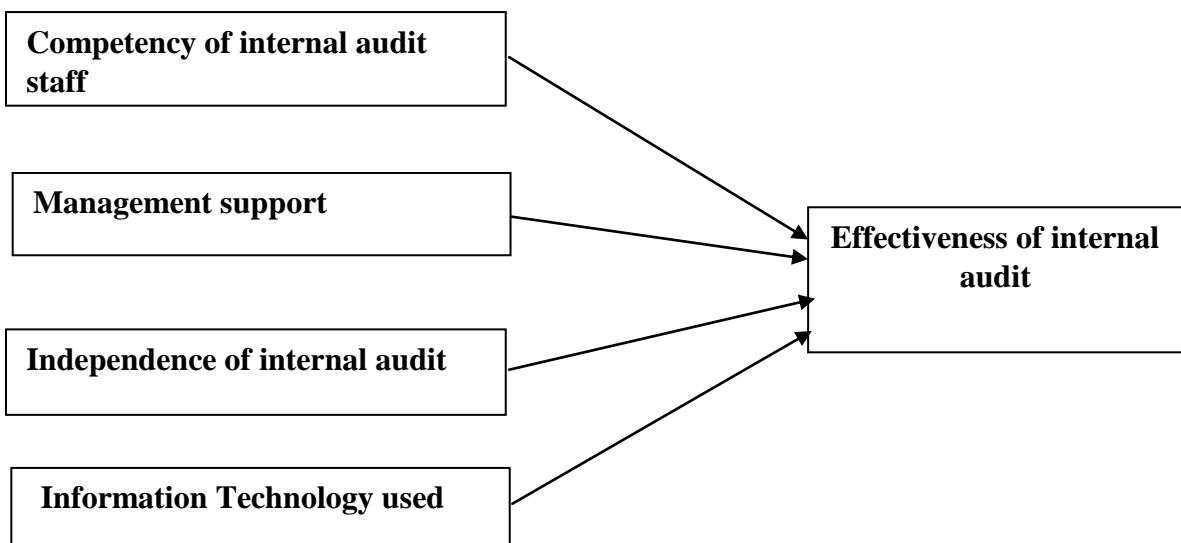
On the other hand, Ahmi and Kent (2013) stated that technological availability could also include both human resources and IT infrastructure. Additionally, Advances in information technology has led to a close collaboration between IT auditors and financial auditors resulting in a higher demand for internal auditors with ERP know-how. (Héroux and Fortin, 2013, Kanellou and Spathis, 2011, 2011, 2011) New IT systems enabled internal auditing to provide management with more relevant information at lower cost and without delay by automated processes, real time facilities and integrated internal auditing. (Shin et al., 2013; Sobel and Kapoor, 2012) Therefore, IT will definitely play an important role in influencing the effectiveness of IA

## 2.4 Conceptual Frameworks

Based on the preceding studied this study adopted and modified the following conceptual framework on the factors determining effectiveness of IA. It is stated below.

Figure 1. Conceptual framework

### Independent Variable   Dependent Variable



Sources: Researcher Zulkifli, Alagan and Mohd,2014

## 2.5 Justification of the Research Project

This research will extend the previous research by examining the relationship among Independence/objectivity of internal audit, Management Support, Competence of Internal Audit and Information technology with internal audit effectiveness in public sector organizations. Therefore, the study's outcomes have three important significances. First, the study's conclusions would be used in internal auditors' effectiveness improvement strategy and policy by the public offices management.

Second, they enable the public sectors' management to take corrective measures by specifically identifying significant factors of internal auditor's effectiveness. Finally, the study's outcomes would contribute to the literature by developing a conceptual understanding of internal auditors' effectiveness in public sectors.

## **2.6. Gaps in the literature and conclusion**

This literature review chapter is argued four potential factors related with the effectiveness of IA. These are competence of IA staff, independence of IA and management support and use of IT in IA work. Effective IA can add value to the public sector and enhance the department and organizational performance. According to the literature review, the researcher suggests the following gaps in the literature:

- ❖ In past decades, limited studies have been conducted in factors influence effectiveness of IA in Ethiopia.
- ❖ Along with the findings of different scholars on the internal audit, little has been done on the actual factors that lead to the effectiveness of internal audit in public sectors.
- ❖ Prior studies were made through collecting data either primary or secondary data. Shortage of literatures which made using both primary and secondary data collection techniques here.
- ❖ There is a limitation on research conducted concerning factors influence effectiveness of the IA. Some researchers encouraged further research and the

need for a more comprehensive study on the issue of factors influence the effectiveness of the IA.

- ❖ Due to these gaps the researcher assessed the factors that leads to the effectiveness of internal audit in public sectors in Ethiopia by considering how the auditors' competence IAs staff, independence of internal auditors , management support and use of IT in IA work influences the effectiveness of internal auditors in public sector offices in East Shewa, Ethiopia.

## **2.7 Summary of the Chapter**

This chapter covered related literature review with an aim of identifying knowledge gaps. The section describes IA theory and its effectiveness, IAE framework and also key factors that influence on the IAE. On this studies identified the factors that influence on the effectiveness of IA such as; Independence & objectives of internal audit, Competency of internal audit, Management support and availability of IT resources. In addition, the gap that this study intends to fill. The gaps in the literature and conclusion.

Finally, this paper presents the relationship between key factors and internal audit effectiveness in the public sector of East Shewa Zone, Ethiopia. The following chapter provides details of the research method in respect of the identified research problem.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research design and its methodology which are used to carry out the study. It describes the research design, the target population and sampling methods and sample size. Besides, it covers the research instruments and the procedure for collecting the primary data and secondary data. Finally the chapter provides the methods that are used to analyze the collected data.

#### **3.2 Research Design**

Research design help researchers to provide data that can answer the research questions or attain the research objectives. There are many types of research designs, depending on the types of data that the researcher want to collect and analyze, such as action, causal, experiment, cross-sectional, descriptive and so on . However, this study employed cross-sectional design because it can only measure differences between or from among a variety of people, subjects, or phenomena rather than a process of change.

Because cross-sectional designs generally use survey techniques to gather data, they are relatively inexpensive and take up little time to conduct.

As such, researchers using this design can only employ a relatively passive approach to making causal inferences based on findings. Cross-sectional designs focus on studying and drawing inferences from existing differences between people, subjects, or phenomena.

Furthermore, the cross-sectional design is the most relevant to the study which follows deduction approach and quantitative method.

### **3.3 Research methods**

There are three main approaches to conduct a research project in the area of business and social sciences namely: quantitative, qualitative and mixed research approaches. Out of these approaches quantitative research method is mainly used to test a theory by investigative the factors based on the previous studies, identifying the research relationships and obtaining the findings. It can generalize research findings when the study collects data from a purposive sample which represents its population and it has sufficient sample size.

Quantitative method can also achieve greater objectivity and more accurate results if we comparing with the other methods. It depends on a few variables and it follows many tools in order to test the validity and reliability of the data. Therefore, in order to achieve the objectives of this study and thereby to give answer for its problems, quantitative research approach was used by the researcher.

### **3.4 Source of Study Population and Data**

The source of populations were the internal audit staff and managers (finance officer and Head of office) in PS of East Shewa Ethiopia. The target population who participated in this research are One Zone of Finance Economic cooperative office, Five Woreda Finance and Economic cooperative offices, Four Municipal City Finance and Economic cooperative offices and Five Public Business sectors (Oromia Broadcasts Network,

Commercial Bank of Ethiopia Adama Branch , Ethio Telecom Adama Branch , Ethiopian Electric Power Corporation East west Branch, Adama Water Supply & Sewerage Enterprise) totally 15 public sector offices found in East Shewa Zone, Ethiopia. Therefore, the researcher focused on these public sectors which have enough internal audit staffs, very popular in nature and have greater impact to influence the country of east Shewa overall social, political and economic issues.

Primarily of data was employed in this research. The survey questionnaires helped us to collect a primary source of data. That helps the researcher to have more insights about factors that affecting the effectiveness of IA at the study area.

### **3.5 Data Collection Method**

As of discussed in the strategy associated with quantitative methods, survey method was adopted in this study. This method enables the researcher to consider appropriately gathering accurate and enough information. It also help to identify factors of IAE in public sectors of east Shewa, Ethiopia and the relationship of variables in the research.

A questionnaire was considered as a key tool in collecting data and it is the most widely used tool in social research such as this study. It contains standardized questions whereby all respondents may understand these questions in the same way. Data from the concerned study areas were collected using self-administered questionnaires which were hand-delivered and hand-collected.

### **3.5.1 Survey Instrument**

Self-administered questionnaires was used to describe what is happening within a study area. The questionnaire is related with the research question and objective of this study. The questionnaire for the managers deals about the effectiveness of the offices internal auditing process, while the questionnaires for the internal auditors are about the independent variables which determine the effectiveness of internal auditors. The questionnaires distributed to the respondent are organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the effectiveness of IA and its determinants. The questionnaires made for internal auditors holds 20 Likert scale questions those are targeted to analyze research hypothesis in manageable, uniform and objective way. The questionnaires made for managers also holds 15 five point scale questions those are targeted the effectiveness of IA's in their sectors. The pre-test will also conduct in two public sector offices so as to test for the significance of the items in the questionnaires and also to determine the reliability of the rating scales used for the study.

### **3.5.2 Sample Design**

Sampling is the process or technique of selecting a suitable sample for the purpose of determining parameters or characteristics of the whole population. The design of a sampling strategy is an important issue for a research study and it can be a powerful tool for accurately. Sampling frame is a complete list of the study population. For this study, the sampling frame was all internal auditors and managers in public sectors office of east Shewa Ethiopia.

### **3.5.3 Sampling Size**

In east shewa zone there are more than 75 public sectors, while most of them have internal audit staff but some public sectors haven't internal audit staffs, (Ethiopian legal Brief, 2013).The researcher determined and selected only 15 public sectors purposively out of 75 public sectors as minimum by taking into consideration their higher budget allocation, resources mobilization and risk area relative to other sectors. That means, from each public sector two managers and three internal auditors participated for the questionnaires administer. Finally, the sample size for this study were seventy five respondents are selected and that are expected to be used as a representative of other sectors.

### **3.5.4 Sampling Procedures**

The samples are selected using purposive sampling method from public sectors of East Shewa zone which have greater impact on the region's overall social, political and economic issues. These public sectors are selected purposively, because the use of purposive sampling enables the researcher to produce important idea that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs. Thus, this research paper was used purposive sampling method to draw the sample from the population.

### **3.6 Data Analysis**

Data analysis was achieved through sequences of activities including editing, coding, entry, and tabulation. The purposes of the data analysis were to check the completeness,

internal consistency and appropriateness of the answers to each of the questions. Besides, the descriptive method of data analysis was important to analysis the demography of the sample in population at the study area in terms of age, educational background, work experience etc. of the respondents using the descriptive methods of statistical analysis like percentage, measures of central tendency and measures of dispersion were used to analysis the data.

Finally, an analysis progress was developed using Statistical Package for Social Science (SPSS). Mean, standard deviation, non-parametric test of chi-square and descriptive statistics was used to analysis and find out the results.

### **3.7 Summary of the Chapter**

In this chapter, the research design and the methodology applied in the study to assess the effect of the factors influencing the effectiveness the internal audit in public sectors of East Shewa zone, Ethiopia. The research was based on a purposive sampling and individual respondents were selected judgmentally and data collection was done using a structured questionnaire. The sample frame was obtained from the managers and the Internal Auditor of the public FED offices and public business sectors such as Commercial Bank of Ethiopia Adama Branch, Telecom Adama Branch and so on. Then, analyzed data was only used for the intended purpose of the study. The analysis of the data was done using the SPSS data analysis tool.

## **CHAPTER FOUR**

### **4. RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the result and discussion of, which was obtained from various issues conducted to achieve research objectives of this study. The chapter mainly constitutes the responses of internal auditors and managers about the perception and level of effectiveness of internal audit using a number of indicators.

#### **4.2 The Descriptive Statistic of the Respondents**

##### **4.2.1 Response Rate**

The study was planned on 75 respondents but the actual response came up with 72 respondents (42 auditors and 30 managers) which is 96%. Thus, this was found to be satisfactory to proceed the analysis with the current number of respondents to reach on certain conclusion about the subject under study.

##### **4.2.2. Respondents Profile**

Assessing the sex, age, educational level, educational background, work experience and several issues were assessed in this study. The study implied that the sex proportion of auditors was high disproportionate 36(85.7%) male and 6(14.5%) female. Managers sex distribution was also similar to that of auditors and it was found that the percentage of male and female participants were 86.7% and 13.3%, respectively. The probable reason for this gender bias may come from various reasons such as engagement of women in such activities because which needs further studies. Age of respondents was also

important variable to be considered for this analysis and the findings revealed that 31% of the respondents were aged between 20 to 29 years, 47.62% of the of the respondent indicated they were aged between 30 to 39 years, 19% of the respondents indicated were aged between 40 to 49 years, whereas the remaining 2.4 % of the respondents indicated that they were aged 50 to 59 years. This indicates the age composition of respondents were heterogeneous which constitute all age ranges between 20 and 60 years. Nearly half of the respondents were found in middle (working age) and the proportion of highly experienced (in terms of age) respondents was extremely small which one out of 42 sample respondents. The heterogeneity in age of respondents enabled the researcher to get varied response which probably represents all age groups of auditors in the organization.

Table 1. Distribution of Auditors and Managers by their sex

Sex	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
Male	36	85.7	26	86.7
Female	6	14.3	4	13.3

Source: Survey results

Table 2. Age distribution of auditors and Managers

Age	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
20-29	13	31	5	16.7
30-39	20	47.6	18	60.0
40-49	8	19	6	20.0
50-59	1	2.4	1	3.3

Source: Survey results

The study also requested the respondents to indicate their highest level of education and from the findings it was found 90.5% were Bachelor degree, 7.1% diploma and 2.4 % of them were Master's degree holders. The result has shown that majority of the respondents ( 90%) of them either they were not given opportunity to upgrade themselves to next higher degree, MA/MSc or their job description may mainly require this academic level. In this regard, further study need to be conducted whether upgrading experts to masters' level would result in significant quality change in their outcomes. Furthermore respondents' professional background was also assessed and it was found that accounting (59.5%), management (26.2%) and economics (7.1%) were dominant fields of study where the sample auditors were engaged in. As it can be seen from the above proportion, accounting holds the lion share followed by management and this would indicate that relationship between the professional background and the effectiveness of internal auditing.

Table 3. Level of education of auditors and Managers

Level of education	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
Diploma	3	7.1	2	6.7
Degree	38	90.5	25	83.3
Master's	1	2.4	3	10.0

Source: Survey results

Table 4. Distribution of Auditors and Managers by their professional background

Field of study	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
Accounting	25	59.5	14	46.7
Management	11	26.2	11	36.7
Economics	3	7.1	5	16.7
Other	3	7.1	0	0

Source: Survey results,2017

The type of organizations and service years experts had is believed to have association with their performance and achieving desired objective while discharging their responsibility. The study found that 31% and 69% of respondents had working in profited oriented and nonprofit oriented organization, respectively. This shows that the composition of experts in the organization had versatile experienced which come from different aspects such as exposure to audit various projects emanated from multilateral

organizations, grant and sponsorship, and other kinds of projects in various organizations. On the other hand, part of experts who specially came from profit oriented organizations were expected to have exposure for various profit related auditing.

Table 5. Sectors where auditors and managers worked

Sector office	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
public profit organization	13	31.0	9	30.0
public nonprofit organization	29	69.0	21	70.0

Source: Survey results, 2017

Analysis of service years of auditors was conducted. Accordingly 54.8% and 38% of the respondents had work experience which ranges from 2 to 5 years and 6 to 10 years respectively. The remaining 7.2% of respondents were either experience having less than 2 years or greater than 10 years. The presence of heterogeneity in this variable would enable this study to accommodate various responses from experts with varied level of work experience. Here it can be note that majority (92%) of the respondents of the position was occupied by between 2 and 10 years experts. This shows that highly experienced staff wouldn't be willing to stay in the office due to various reasons.

Table 6. Distribution of Auditors and managers by their service years

Service year category	Auditors		Managers	
	Frequency	Percent	Frequency	Percent
Less than 2 years	1	2.4	4	13.3
From 2 to 5 years	23	54.8	13	43.3
From 6 to 10 years	16	38.1	8	26.7
Greater than 10 years	2	4.8	5	16.7

Source: Survey results,2017

Individual responses of respondents for each question item are documented in appendix section of this study. The following section tried to elaborate and analyze the responses of auditors as per their magnitude of responses for each category.

#### **4.3 Factors influence Effectiveness Internal Audit**

The aim of this study was to analyses the factors influence EIA in public sectors of east Shewa, Ethiopia. This section, therefore, presents the reliability of analysis and detailed findings of the study. The findings are based on internal auditors' (respondents) perceptions.

Questionnaire as measure of consistency of the question items, the reliability analysis was conducted using Cronbach's Alpha ( $\alpha$ ), the most common measure of scale reliability test. As shown below in Table 7.1 below the value for Cronbach's Alpha ( $\alpha$ ) was 0.898 for all variables which exceed 0.70 the accepted value for

Cronbach's Alpha (Field, 2009; Cohen and Sayag, 2010). Thus, it can be concluded that, the responses generated for all of the variables used in this research was reliable enough to analyze the data.

Table 7.1 Test of reliability

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.898	0.895	20

Source: Survey results 2017

This sub section tried to deal with analyzing the influence of four categories of determinants on effectiveness of internal audit. The analysis consider the response items (strongly agree, agree, Neutral, Disagree and strongly disagree) as categorical and continuous variables. As continuous variable, the mean score of responses were obtained by summing up the responses of all question items with in the category and divide the value by the number of question items. Based on this mean value, score which is less than 3 was considered as ineffective, and on the other hand, value which was greater than or equal to 3 was considered as effective. On the other hand the responses of respondents were also treated as discrete values where each item was employed to identify the significance of each question items to see the influence of the determinants towards internal audit effectiveness. The below discussions was based on the above mentioned assumptions.

Identifying major factors that would have association with effectiveness of internal audit was one of the major essences of this research. The findings of those factors are presented here under this table.

As it can be depicted from table 7, competency of internal audit, independence of internal auditors, management support and availability of IT were assumed to have association with effectiveness of internal audit. Each category of determinant has several question items in it. Mean, SD, chi square and P-value were used to delineate whether the question items were influenced the dependent variable, i.e effectiveness of internal audit. The dependent variable, effectiveness of internal audit was operationalized in such a way that mean scores less than 3 as ineffective and mean score greater than or equal to 3 as effective, having value of 0 and 1, respectively.

#### **4.3.1 Competency of internal auditors**

This determinant had been composed of 5 questions with average mean response of 3.432, which is leveled as having influence on internal audit effectiveness. As it can be observed in table 7 all question items in this category has statistically significant with respect to dependent variable. All the five question items had influence on internal audit effectiveness at varied p-values. For instance taking continuous professional development training per year was found to be highly significant at  $p < 0.001$  (Table 7). The study revealed that the respondents strongly agreed that internal auditors in public sectors organization had a good understanding organization management and operational skills. This finding coincides with (Abraham, 2015). This findings are consistent with Morgan (2009) who argues that the competency of internal auditors is important in promoting good governance and ensuring effective utilization of public resources. Therefore we can conclude that the Internal Auditors do possess sufficient possess sufficient experience and professional skill to understand the organizations system.

### **4.3.2 Independence of internal Auditors**

This category of determinant comprises of 5 question items where 4 of them were found to have effect on dependent variable of this study. However, as you can see in table 7, the influence was not as strong as the competency of internal auditors. The mean score of responses for the question items were 3.824, which is agreed level of the question items. The study conducted on the organizational Independence of IA revealed that the mean score value for the category in average was 3.824 which falls on an agree degree of agreement. The result also coincides with Abraham (2015). This implied that the overall average response for the organizational Independence was agreed by the respondents.

### **4.3.3 Management support**

Management support was also supposed to influence the effectiveness of internal audit. The analysis confirms this assumption in such a way that all of the question items under this category were significantly affecting the effectiveness of internal audit. The mean score of responses was 3.533, which indicated that majority of the respondents had positive inclination towards the response of their questions. The result were consistent with the previous auditing research works of (Shewamene, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) they also found and reported that the top management support was the determinant factor for the effectiveness internal audit in particular. Therefore, the management can contribute for the effective result of the internal auditors through their support in terms of continuous training for their IA staff, fulfilling the necessary materials and facilities that the IA staff needs.

#### 4.3.4 Availability of information technology

Availability of IT technologies of varied types would have positive influence to undertake effective internal audit activities. In this regard, this item was assumed to affect the effectiveness of internal audit. The category was composed of 5 question items designed to level respondents to locate their response level towards association of question items with effectiveness of internal audit. The mean score of responses for this category as determinant was 3.767, which again showed that majority the level of responses regarding the influence of question availability of information technology towards effectiveness of internal audit was positive. However, the level of responses by the respondent for this variable ( as compared to above mentioned determinants) was found to be low, only 2 of the five items were found to have significant association( at  $p < 0.1$ ) with the dependent variable. This implied that the overall average response for the internal audit effectiveness was agreed by the respondents. The researcher concluded that IT resource has a significant effect on the effectiveness of internal auditing.

Table 7. Chi-square p value significance of factors influence EIA

<b>Competency of internal auditors ( mean =3.432)</b>		<b>Mean</b>	<b>SD</b>	<b>Chi-Square value</b>	<b>P-value</b>
1	Internal Auditors have adequate professional knowledge on the overall activities of the organization	3.59	0.901	9.333	0.025*

2	Internal Auditors are proficient in planning on risk based internal auditing	3.57	0.903	7.130	0.068*
3	Internal auditors are capable in techniques on control, assessment and risk analysis	3.524	0.763	8.772	0.032*
4	Internal auditors undertake continuous professional development training per annual	3.048	1.022	17.500	0.001***
5	Internal Audit obtains a sufficient budget to successfully carry out its duties	3.428	1.072	15.867	0.003**
<b>Independence of internal Auditors( mean=3.824)</b>		<b>Mean</b>	<b>SD</b>	<b>Chi-Square value</b>	<b>P .value</b>
6	Internal audit is free from intervention in performing its duties	3.381	0.999	9.671	0.046*
7	Internal auditors feel free to include any audit findings in their audit reports	4.524	1.435	9.224	0.056*
8	Internal auditor has free and unrestricted access to all operational, personnel, asset and transaction records	3.762	0.839	3.719	0.293
9	Internal audit staff are not requested to perform non audit function	3.476	1.074	9.109	0.058*
10	Internal Audit staff assignments are rotated periodically	3.976	0.913	12.299	0.006*

<b>Management support( mean= 3.553)</b>		<b>Mean</b>	<b>SD</b>	<b>Chi-Square value</b>	<b>P .value</b>
11	Senior management supports internal audit to perform its duties and responsibilities	3.595	0.874	13.696	0.003**
12	Internal audit evaluates and improves the effectiveness of risk management	3.786	1.103	13.243	0.004**
13	Management takes timely corrective action based on internal audit recommendations	3.429	0.979	15.037	0.002**
14	The response of internal audit reports by the senior management is reasonable	3.786	0.803	15.561	0.001***
15	Management support internal audit by providing training in order to improve their skill and update with the field	3.167	1.045	11.625	0.009*
<b>Availability of information technology (mean=3.767)</b>		<b>Mean</b>	<b>SD</b>	<b>Chi-Square value</b>	<b>P .value</b>
16	Availability of technology in their organization will help the internal audit department to implement IT	3.738	0.847	2.188	0.534
17	The integrated budget and expenditures (IBEX) or other software control system is a part of the	3.667	0.891	5.844	0.119

	scope of the internal audit activity				
18	Availability of sufficient resources for IT should have positive effect on effectiveness of IA activity	3.762	0.648	2.433	0.296
19	IA function should make use of computer assisted tools and technologies in their audit testing	3.714	0.907	6.380	0.095*
20	IA sufficiency utilize information technology like computer assisted audit tools in their audit work	3.952	0.688	7.020	0.030*

The P value of significance: ( \* ) at 90% CI, (\*\*) at 95% CI, (\*\*\*) with 99%CI

Source: Survey results,2017

#### 4.4. Internal audit Effectiveness

Questionnaire as measure of consistency of the question items, the reliability analysis was conducted using Cronbach's Alpha ( $\alpha$ ), the most common measure of scale reliability test. As shown below in Table 7.2 below the value for Cronbach's Alpha ( $\alpha$ ) was 0.732 for all variables which exceed 0.70 the accepted value for Cronbach's Alpha (Field, 2009; Cohen and Sayag, 2010). Thus, it can be concluded that, the responses generated for all of the questions items used in managers view was reliable enough to analyze the data.

Table 7.2 Test of reliability

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.732	.826	15

Sources: Survey result,2017.

This subsection addressed the views of managers towards various states of internal auditor's effectiveness. The method of analysis of the dependent variable is the same as the case of auditors above (refer sub section 4.2).

Table 8. Managers' view about internal audit Effectiveness

S/N	Question items on Effectiveness of Internal Audit	MEA N	S.D	Chi Square	P-Value
1	Internal audit develops a risk-based annual plan.	3	1.095	9.736	0.45
2	Internal audit evaluate the effectiveness of internal controls and risk management of the organization.	3.1	1.165	14.921	.005**
3	Internal audit activities are adding value at a low cost within your organization.	2.9	1.626	10.078	0.039**
4	Internal audit activity meets the requirements of the IIA's Code of	2.93	1.583	15.937	0.007**

	Ethics.				
5	Internal audit ensures the economical, effective and efficient use of resources in public sectors.	3.2	1.031	6.989	0.072**
6	Internal audit ensures the activity that is performed compliance with established policies, law, regulation and directives.	3.5	0.763	5.620	0.132
7	Internal audit performs their task in a professional and courteous manner.	3.4	0.984	19.167	0.000***
8	The audit reports provided by internal auditors of this organization are reliable and significant.	2.57	1.022	7.629	0.106
9	The internal audit team members have sufficient technical and IT knowledge to perform their role effectively.	2.27	1.03	4.653	0.325
10	Internal auditors have the experience to address risk management problems within the organization.	2.47	1.309	5.484	0.241
11	Internal audit obtains a sufficient budget to complete its Internal Audit Plan	2.8	1.249	0.982	0.912

12	Internal audit activity is an independent objective assurance and consulting activity.	2.63	1.048	1.788	0.618
13	Internal auditors obtain unrestricted access to any information regarding your organization	3.03	1.079	5.162	0.160
14	Your internal audit activity proactively examines important financial matters, risks, and internal controls.	2.57	1.082	4.405	0.221
15	The internal audit department's should follow-up and ensure that corrective actions are taken.	2.9	1.274	12.386	0.015**
Mean score of all responses		2.88			

Source: Survey results,2017

Unlike the part of auditors the managers were asked 15 question items( not divided in to different sub categories) and their mean response score for each question item were analyzed ( Table 8). The mean score of all question items was 2.88, which indicate that majority of the respondents scored less than three for most of the question items and based on this value we can conclude that majority of the question items were significant influences on internal audit ineffectiveness.

The result of this study indicated that out of 15 fitted question items, only six of them were found to have statistically significant association with effectiveness of internal

audit. Evaluating effectiveness of internal control and risk management or organization would result in high effectiveness of internal audit. The finding shows that the manager's response towards positive influence of this factor was statistically significant at  $p < 0.05$ .

The managers also believe that internal audit activities are adding values at low cost within their organizations. The chi square test showed that this variable has significant relation with internal audit effectiveness at  $p < 0.05$ . The managers also perceived that internal auditors are performing their tasks in professional manner, the chi-square test also confirmed that there exists strong correlation between performing tasks professionally and internal audit effectiveness at  $p < 0.001$ . Organizational structure and orientation to take corrective measures will have paramount importance to enhance effectiveness of internal audit. In this regard the test statistics showed that, the variable is statistically significant to affect audit effectiveness at  $p < 0.05$ . This implied that the overall average response for the internal audit effectiveness was agreed by the respondents.

#### **4.5 Discussion**

This project finds that there are significant positive relationship between competency of IA, management support and Information technology of IA to the effectiveness of IA. The finding indicates the greater of IA effectiveness will depend to auditors' competency and management support and IT of IA. As such any negative factor (independency of IA) that affected to these factors will give a significant change in the effectiveness of IA. After review of these different sources, there is a lack of efforts to integrate findings about factors that will influence the effectiveness of IA. Therefore, this research started to aim at integrate and extend findings about factors that influence the effectiveness of IA. These

four factors are the inside and obvious factors that affect the effectiveness of internal audit.

This research paper also found four factors that can influence the internal audit effectiveness such as the competency of IA, Independence of IA, Management support and IT which are important for auditors to enable the internal audit function effective. Meanwhile, this project found the relationship with management support is also an important factor as well as the information technology. These four factors constituted the main findings about acknowledged factors with 4 in one source.

In addition, this paper also found two more variables which are the effectiveness of internal audit that can also be deemed as factors because they have closely relationship with the internal audit.

In conclusion, this project findings including 4 with real relationship with the effectiveness of internal audit.

Comparing the results of this study with previous literature, it can be generally argued that all of the four examined factors to be associated with internal audit effectiveness. This result is in line with the general standards of IPPF (IIA, 2012) which consider these four factors as important indicators of internal audit and also in line with Kasim and Hanafi (2012) who developed their model for assessing internal audit effectiveness based on the same factors.

This finding is differentiated from the study of Alzeban and Gwilliam (2014) who showed that management support is the factor which is positively associated with all

other factors. Considering the competence of internal audit team, the results showed positive relationship with internal audit effectiveness but with the lower value of all factors.

Regarding the independence, it can be argued that independence of internal audit is the most important factor affecting internal audit effectiveness according to the present research.

Quite similar were the findings of Alzeban and Gwilliam (2014) who argue that independence is one of the most important factors in their research. Finally, similar with the Yee et al. (2008), management support is also positively associated with internal audit effectiveness. Contrary to the findings of the present study, Cohen and Sayag (2010) and Alzeban and Gwilliam (2014) found that management support was the most important factor affecting internal audit effectiveness. However, similarly to the study of Alzeban and Gwilliam (2014), management support seems to be positively and significantly associated with all other factors. Overall, this study adds to the extant literature on internal audit by examining the factors of internal audit's effectiveness.

## **CHAPTER FIVE**

### **5. SUMMARY AND CONCLUSION**

#### **5.1 Introduction**

The chapter provides the summary of the findings, discussion, conclusions and recommendations of the study based on the research questions of the study. The purpose of this study was to establish the factors influence the effectiveness of internal auditors' in the public sector with a focus on the public sectors of East Shewa ,Ethiopia..

#### **5.2 Summary of Findings**

In line with the objective of this research to assess the factors influencing the internal audit effectiveness in the public sectors office of East Shewa, Ethiopia. The study applied cross-sectional descriptive approach to get advantage on draw backs of using one approach. The researcher has adopted questionnaires to gather firsthand information from the respondents with heterogeneous age bracket, level education, field of study, and service period. Questionnaire, which had five scale of level of responses, was used to assess the responses of sample respondents (auditors and managers) about issues of factors influence EIA and internal audit effectiveness. Then, reliability and validity test was conducted in order to check the inconsistency of the data. As the reliability test confirmed the consistency of the data for the analysis, the collected data from the respondents was analyzed using SPSS. The data are presented using mean, standard deviation and chi-square tests. The result of the analysis were then summarized as follows:

According to the analysis and interpretation output variables of Competence of IA staff and management support for IA were positively contributed for the effectiveness of internal audit in east Shewa, Ethiopian public sector offices. Therefore, the public sector office should give emphasis to use these factor variables to make their service delivery effective, efficient and economical throughout their offices.

Moreover the management support, and competence internal auditor's staff were the major factors of EIA in the public sector. However, the independence of IA and the availability of IT in the work of IA were not significantly important for the effectiveness of IA of public sectors as of the above two variables.

This study finds that the composite measure of management support, independence of internal auditors, competent IA staff, and the availability of IT in the work of internal audit out of the 20 items of question 60% of respondent reply a negative and significant at  $p < 0.05$  that independent variables influence the EIA in the public sector offices.

The final portion of this research aims to conclude the finding of the study focusing on the core factors that have significant impacts to the effectiveness of internal audit and to provide recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study specifically related to the managements support given to the IA activities, independence of the IA, competence IA staff, and the availability IT in the work of IA in the public sector offices.

### **5.3 Conclusion**

The aim of this research is to analyse the influence of the internal auditor competencies, the independence of internal auditor, management support to internal audit works, the information technology to IA work, to the internal audit effectiveness.

The study found that the proportion of male and female experts in the study sites was biased. This may be emanated from lack of capacity building programs for women to be encouraged in the professional world or lack of awareness and motivation about gender issues in relation to the subject under study. Thus, further studies which may explore the root causes of this bias and related issues need to be conducted. Besides, concerned bodies at various levels should devise a way to empower women and actively participate in workforce.

The composition of highly experienced experts in this beyond 10 years is very low. The probable reason with this issue may be lack of conducive work environment, less payment by government bodies and governance issues. On the other hand losing experienced expert should be considered as a loss as these people are assumed to have age long experiences gained from various aspects of life. Thus, organizational management bodies and concerned government departments should give attention for the aforementioned problems and ways need to be devised to retain experienced workforce for better internal audit effectiveness.

The perception of auditors regarding factors towards effectiveness of internal audit was between 3 and 4, which is effective using the criteria of taking 3 as threshold but 'low' value of mean score as compared to the maximum value (5) may be because of various

factors such as reluctance of the respondents while filling the questionnaire, or the problem might real problem that need to be addressed. In this regard, further research should be designed to come up with the real factors that may contribute to internal auditors' effectiveness.

Besides, concerned bodies should work on factors that have shown influence on internal audit effectiveness. Internal auditors' perception towards factors influencing internal audit effectiveness, which was explained using mean score of question items was low. The probable reason for this result might be many such as lack of awareness about the question items, preconceived attitude about the internal auditors and so forth. Finally, the result showed that competences of IA and management support have significant and positive effect on the internal audit effectiveness. While independence of IA and the information technology to IA work has no positive effect in the internal audit effectiveness. The managers perception on the mean score of all question items for the IAE was 2.885 where  $p > 0.05$  that showed majority of respondent consider that IAs were insignificant effect on IAE. Thus, the study conclude that IAs were ineffective.

#### **5.4 Recommendation**

Based on the above finding (conclusion) the following recommendation was made.

- ❖ The Oromia Finance and Economic cooperative Bureau and other concerned government body should work to the make effective independence of internal Audit to perform their professional obligations and duties,

- ❖ Independence of IA shall be free from the interference of the management in including and reporting all the critical findings.
- ❖ The Oromia Finance and Economic cooperative Bureau, other concerned government body and other stakeholders should work to effective the independence of IA staff.
- ❖ The Oromia Finance and Economic cooperative Bureau, other concerned government body and other stakeholders should be upgraded in a timely manner to encourage internal audit staff to use computerized auditing techniques.
- ❖ Future research should pay attention to the number of the population and analyzing another factors that may affect the internal audit effectiveness.

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## **APPENDICES**

### **APPENDIX I : INTRODUCTORY LETTER**

Sisay Gebre, MSc student  
Addis Ababa University  
College of Business and Economics  
Department of Accounting and Finance  
November 11, 2017

Dear respondent,

The objective of this questionnaires is to gather actual information that will help to assess the factors influence the Effectiveness of internal audit in the public sectors office of East Shewa Oromia Regional State only. This study is undertaken as a partial requirement for the completion of Masters of Accounting and Auditing in Accounting and Finance Department.

All data and information that will be gathered through this questionnaires will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with greatest good confidence, freely and to the best of your knowledge. There is no need to write your name on the questionnaires.

Your honest and thoughtful response is invaluable

Thank you in advance for your time and kind cooperation.

Kind regards, Sisay Gebre Bore

E-Mail: sisaygebre15@gmail.com

Mob: +251 0911828987

**APPENDIX II : Q**

**QUESTIONNAIRE**

**QUESTIONNAIRES TO INTERNAL AUDITORS**

**PART A: PERSONAL PROFILES**

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

Sex/Gender/: Male (\_\_\_\_) Female (\_\_\_\_)

Age (in year): 20 to 29 (\_\_\_\_), 30 to 39 (\_\_\_\_), 40 to 49 (\_\_\_\_), 50 to 59 (\_\_\_\_),

Above 60 (\_\_\_\_)

Your field of study: Accounting (\_\_\_\_), Management (\_\_\_\_), Economics (\_\_\_\_),

Other (specify) \_\_\_\_\_

Level of education: Diploma (\_\_\_\_), Bachelor's Degree (\_\_\_\_),

Master's Degree (\_\_\_\_) Or others specify \_\_\_\_\_

Indicate your sector: public office /bureau [Not for profit] (\_\_\_\_) or public

Business enterprise [for profit] (\_\_\_\_)

Year of experience in as an internal auditors

Two years and less (\_\_\_\_), above two years less than five years (\_\_\_\_),

Above five years less than ten years (\_\_\_\_), above ten years (\_\_\_\_)

## PART B. QUESTIONNAIRE ITEMS

Instruction: Below are lists of statements pertaining to internal audit in your organization.

Please tick (√) the appropriate scale that indicates your opinion in table below.

The values of scales are 5= strongly agree (SA), 4= Agree (A), 3= Undecided (U),

2= Disagree (D), 1= strongly disagree (SD)

Sr. No	A. Competency of Internal Auditors	The Scales				
		SA	A	U	D	SD
1	Internal auditors have adequate professional knowledge on the overall activities of the department.	( )5	( )4	( )3	( )2	( )1
2	Internal auditors are proficient in planning on risk-based Internal auditing	( )5	( )4	( )3	( )2	( )1
3	Internal auditors are capable in techniques on control assessment and risk analysis	( )5	( )4	( )3	( )2	( )1
4	Internal auditors undertake continuous professional development training per annual.	( )5	( )4	( )3	( )2	( )1
5	Internal audit obtains a sufficient budget to successfully carry out its duties.	( )5	( )4	( )3	( )2	( )1
<b>B. Independence of Internal Audit Team</b>						
6	Internal audit is free from intervention in	( )5	( )4	( )3	( )2	( )1

	performing its duties					
7	Internal auditors feel free to include any audit findings in their audit reports.	( )5	( )4	( )3	( )2	( )1
8	Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records.	( )5	( )4	( )3	( )2	( )1
9	Internal audit staff are not requested to perform non-audit functions	( )5	( )4	( )3	( )2	( )1
10	Internal audit staff assignments are rotated periodically	( )5	( )4	( )3	( )2	( )1
<b>C. Management Support</b>						
11	Senior management supports internal audit to perform its duties and responsibilities.	( )5	( )4	( )3	( )2	( )1
12	Internal audit evaluates and improves the effectiveness of risk management.	( )5	( )4	( )3	( )2	( )1
13	Management takes timely corrective action based on internal audit recommendations.	( )5	( )4	( )3	( )2	( )1
14	The response to internal audit reports by the senior management is reasonable	( )5	( )4	( )3	( )2	( )1
15	Management supports IA by providing training in order to improve their skill and update with the field.	( )5	( )4	( )3	( )2	( )1

<b>D. Availability of Information technology</b>						
16	Availability of technology in their organization will help the internal audit department to implement IT.	( )5	( )4	( )3	( )2	( )1
17	The Integrated Budget and Expenditures (IBEX), financial management information systems (FMIS) or other software control system is a part of the scope of the Internal Audit activity.	( )5	( )4	( )3	( )2	( )1
18	Availability of sufficient resources for IT should have positive effect on effectiveness of IA activity.	( )5	( )4	( )3	( )2	( )1
19	IA function should make use of computer-assisted tools and technologies in their audit testing.	( )5	( )4	( )3	( )2	( )1
20	IA's sufficiently utilize information technology like computer assisted audit tools in their audit work.	( )5	( )4	( )3	( )2	( )1

~ The end ~

## QUESTIONNAIRES TO MANAGERS

### PATT A. PERSONAL PROFILES

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

Sex/Gender/: Male (\_\_\_\_) Female (\_\_\_\_)

Age (in year): 20 to 29(\_\_\_\_), 30 to 39(\_\_\_\_), 40 to 49 (\_\_\_\_),

50 to 59(\_\_\_\_), above 60 (\_\_\_\_)

Your field of study: Accounting (\_\_\_\_),Management (\_\_\_\_),

Economics (\_\_\_\_), other specify\_\_\_\_\_

Level of education: Diploma (\_\_\_\_) Bachelor's Degree (\_\_\_\_),

Master's Degree (\_\_\_\_) or others specify \_\_\_\_\_

Indicate your sector: public business enterprise [for profit] (\_\_\_\_) or

Public office /bureau [Not for profit] (\_\_\_\_)

Year of experience in Managers or Finance officer in your sector

Two years and less (\_\_\_\_), above two years less than five years (\_\_\_\_),

Above five years less than ten years (\_\_\_\_), above ten years (\_\_\_\_)

## PART B. QUESTIONNAIRES ITEMS

**Instruction:** Below are lists of statements relating to managers or finance officer in your organization. Please tick (√) the appropriate scale that indicates your opinion in statement below. The values of scales are 1. Poor, 2.Satisfactory, 3. Good, 4.Very good, 5.Excellent

1. Internal audit develops a risk-based annual plan.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

2. Internal audit evaluate the effectiveness of internal controls and risk management of the organization.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

3. Internal audit activity are adding value at a low cost within your organization.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

4. Internal audit activity meets the requirements of the IIA's Code of Ethics.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

5. Internal audit ensures the economical, effective and efficient use of resources in public sectors.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

6. Internal audit ensures the activity that is performed compliance with established policies, law, regulation and directives.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

7. Internal audit performs their task in a professional and courteous manner.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
8. The audit reports provided by internal auditors of this organization are reliable and significant.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
9. The internal audit team members have sufficient technical and IT knowledge to perform their role effectively.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
10. Internal auditors have the experience to address risk management problems within the organization.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
11. Internal audit obtains a sufficient budget to complete its Internal Audit Plan.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
12. Internal audit activity is an independent objective assurance and consulting activity.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )
13. Internal auditors obtain unrestricted access to any information regarding your organization.
- a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

14. Your internal audit activity proactively examines important financial matters, risks, and internal controls.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

15. The internal audit department's should follow-up and ensure that corrective actions are taken.

a) Poor, ( ) b) Satisfactory ,( ) c) Good, ( ) d) Very good, ( ) e) Excellent ( )

~ The end ~