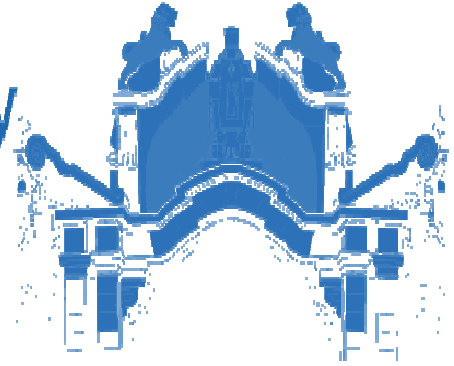




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**DEPARTMENT OF ACCOUNTING AND FINANCE
FACULTY OF BUSINESS & ECONOMICS**

ASSESSMENT OF EFFECTIVE INTERNAL AUDIT PRACTICE

**THE CASE OF LOCAL CONSTRUCTION COMPANIES
IN ADDIS ABABA**

BY TSEGAYE HAGOS

ID NO. GSE/9061/09

MARCH, 2020

ADDIS ABABA

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**A thesis submitted to the School of Graduate Studies of
Addis Ababa University**

**In partial fulfillment of the requirements for the Degree of
Masters of Science in Accounting and Finance**

MARCH,2020

ADDIS ABABA

Declaration

I, the under signed, declared that this thesis is my original work and has not been presented for a degree in any other universities, and that all source of materials used for the thesis have been duly acknowledge.

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Abstract

The purpose of the study was to investigate determinants of internal auditing effectiveness in selected private construction companies. It was delimited to Yotek, Sunshine, Yencomad and Sur Construction Companies. descriptive research design was employed to conduct the study. Both random and non-random sampling techniques were used to select sample respondents out of the target population. With these techniques, the companies' executives, department heads, internal auditors and administration personnel of the companies were selected. The total sample size of the study was 72. Primary and secondary source of data were used in the study. Data for the study was collected by making use of questionnaire, interview and document analysis. Both qualitative and quantitative methods of data analysis were employed to analyze the data. As the result, the study concludes that the major qualities of the companies auditing to be independence of auditors and they conducted the audits objectively as well as the audits were conducted in line with the working laws and in ways that conform to the established policies, regulations and procedures. It also concludes that the audits were effective in the fact that it enabled the companies meet their objectives and goals, as well as enabled them monitor their major business activities, transactions and inventories, and maintained safe and efficient cash handling. The key role players to the effectiveness of the audits performed in the companies were

the audit staffs and top managements. The presence of quality internal audits and the auditors' competence in performing the audits were factors that contributed to the auditing effectiveness. The presence of moderately effective internal auditing had brought about positive impacts to the companies. The major impacts include that it helped the companies improve their operations, the effectiveness of risk management and examine the extent to which financial and material resources were effectively utilized. Moreover, the study concludes that absence of regular follow ups by audit staff and failure to give immediate responses towards audit findings by top management and the fact that audit reviews not conducted on due time were the major problems observed in the companies. As the result, it recommends that in order to enhance the effectiveness of internal audit functions, companies need to work to have quality internal audits which cover all aspects organizational issues. Besides, business firms need to establish appropriate organizational culture which is helpful to accomplish its objectives by bringing a systemic, disciplined approach to improve the effectiveness of risk management, control and governance process. For the maintenance of a sound and effective auditing, top management need to cooperate and provide supports to the firm's internal auditors in different aspects they may find to be helpful to conduct their auditing activities. Moreover, they need to support the auditors by providing trainings so that they would update and improve their skills, as well as introduce themselves with new technologies of the time.

Key words: Audit, Internal audit, internal Audit effectiveness

Acronyms and Abbreviations

- CSA Central Statistics Agency
- IA Internal audit
- IAA Internal auditors association
- IAF Internal audit function
- IIA Institute of internal auditor auditors
- IPPI International Professional Practices
- OAC Office of the audit general

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CHAPTER ONE

1. Introduction

1.1. Background of the Study

The study was conducted with the view of investigating factors that determine the effectiveness of internal auditing in private construction companies.

Internal audit is a key pillar of good governance. It provides board of directors, chief executive officer, senior executives and stakeholders with an independent view on whether the organization has an appropriate risk and control environment, whilst also acting as a catalyst for a strong risk and compliance culture within an organization.

Organizations have encountered rapid changes in economic complexity, expanded regulatory requirements, and technological advancements in recent years. In addition to these changes the current corporate scandals and the global financial crisis also pushed the public and regulatory bodies to give unique position to internal audit in corporate governances for internal assurance services (Soh and Bennie, 2011).

The emergence of internal audit as a discipline traced to the early 1940s when the Institute of Internal Auditors (IIA) was established in 1941 at Lake Mary, Florida, USA. The first book on internal auditing, *Modern Internal auditing*, was also published by Victor Z. Brink in 1942 (Moeller 2005). Subsequently,

the internal audit profession has been growing globally under the global leadership of the Institute of Internal Auditors (IIA) (Soh and Bennie, 2011).

The need to effectively utilize funds on public sector was the main cause for the rapid implementation of modern audit practice in Ethiopia and to achieve this, the Office of the Audit General (O.A.G) is formulated in 1961 by amending the office and auditors duties and responsibilities. In 1987 and onwards there were significant developments in public sector auditing systems. Besides, the coming of Proclamation No. 13/1987 empowered the Office of Auditor General to direct the internal auditors of government offices and public enterprises in three aspects that are; Whether accounting records are properly maintained and reliable, Whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and Whether policies and procedures laid down by top management are complied with the proclamations. (Kinfu, 1990; Lemma Argaw,2000). On July 1, 1997 the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Minister of Finance to develop and maintain appropriate standards of work.

The modern internal auditor seeks to add value by laying emphasis on improving procedures and policies through reduced costs, increased bottom line and better services to users (Eden and Moriah, 1996). As a result, senior management and the board increased their reliance on the internal audit to improve the organization's operation and to systematically evaluate the management or organizational risks. Internal auditing provides a basis for correcting deficiencies that have get away from the first line of defense before deficiencies become uncontrollable or are exposed in the external auditor's report (Eden and Moriah,1996).

Hence, organizations seeking a suitable and effective quality management system need to conduct internal audits to ensure that the system functions as

intended (Lindow and Race, 2002). However, the effectiveness of internal audits depends on different factors and understanding those factors is one of the prerequisite to get the benefits of internal audit. Considering this, the central objective of this study is to investigate factors determining effectiveness of internal audit function in Ethiopian construction sector.

On the ground of the above scholarly discussions on what good internal auditing should seem to be like, and its significance for business firms, this study is intended with the view of assessing the effective internal audit practice in local construction sector of selected private companies.

1.2. Statement of the Problem

In corporate governance internal audit issue has received increasing attention in recent years, due to different reasons. In the accounting profession, audits play an important role in serving the public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting process and they serve as an important link in the business and financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2009).

The role of internal audit is to determine that internal control is in place by reviewing policies and practices in the organization in order to avoid loss of financial resources, noncompliance and also to provide reasonable assurance that public money has been spent in an efficient and effective manner (Eden and Moriah, 1996).

Even though, the internal auditors have many roles and contributions to the organization and the public interest, they also faces many challenges from the organization they work. Some of the challenges identified by the Ethiopian 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. In addition to the above challenges, different

factors like absence of strategic plan and management support, organizational independence of internal auditors, adequacy and competency of internal audit staff and the presence of approved internal audit charter and other factors affects internal audit effectiveness (Mihret and Yismaw, 2007).

An effective internal audit function is a significant player in two basic governance activities; monitoring of risks and providing assurance regarding controls. Furthermore, internal audit function plays a key role in compliance work and may also spend considerable time on consulting or operational-oriented work, with the objective of enhancing the organizations effectiveness and efficiency; and all these elements map directly in to organizational governance (Hermanson and Rittenberg, 2003). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin and Kent, 2006).

Construction industry makes significant contributions to the socio-economic development process of a country. Its importance emanates largely from the direct and indirect impact it has on all economic activities. It contributes to the national output and stimulates the growth of other sectors through a complex system of linkages.

According to the recent Plan, the government gave emphasis to enhancing the capacity of the domestic private sector so as to create a competitive local construction industry. Furthermore, existing and new businesses involved in import substitution and in the introduction of low cost construction materials and technologies is encouraged.

Investment in nearly every field must eventually have a construction component. The importance of the construction industry to the economy can be measured by its contribution to the Gross Domestic Product (GDP); its contribution to investment; and labor employed. Internationally, the

construction industry contribution to GDP is from 8% to 13%. But when it comes to Ethiopia the contribution of construction sector's to GDP is 8%.

According to the CSA, the construction sector has been growing at an average of 12%. The sector on average, accounted for 5.3% of the total GDP. According to a statement from the Ministry of Urban Development, Houses and Construction (MoUDHC), the contribution of the construction sector to the country's GDP is anticipated to grow to 20% in the coming years.

There are many local private construction firms and government enterprises in Ethiopia's construction sector. Many of these firms engaged in building, roads and bridges. Currently, Infrastructures development program of the country included in the five years Growth and Transformation Plan (GTP) has brought huge market particularly for the construction industry. In this regard, various construction projects have been planned in different sectors.

Even though there are huge potential markets in construction sector in the country, on the other hand there are some limitations which have negative impact on the construction companies in particular and in the construction sector in general; among the limitations utilization of resources (financial, human, raw materials) are the key. Thus, effective internal audit function is strongly needed so as to keep abreast of development and technical progress witnessed by the sector. But internal audit function in the construction sector is not as effective as the construction activities in the country. Hence assessing the internal auditors contribution in line with their role is a crucial, the literature review shows lack of adequate literatures on factors determining the internal audit effectiveness especially in the construction sector.

A number of studies have been conducted by different researchers regarding the practice and challenges of internal auditing as well as its effectiveness in various local business firms. However, only little was studied in construction companies in this regard. This shows that construction companies had not

much attracted researchers' attention. To this end, much has not been known about the practice and effectiveness of internal auditing in this sector.

Therefore, examining internal audit effectiveness on the Ethiopian construction sector could have a paramount importance. Moreover, considering the above facts, evaluating factors which affect the internal audit effectiveness is essential for organizational success and effective utilization of resources.

Therefore, this study examined the effects of Audit Quality, Auditors competency, Top Management Support, Independence of internal audit, auditee attribute, management's perception of IA values and availability of audit committee on internal audit effectiveness. To this end, the study is aimed at revealing how internal auditing is carried out and how effective it is in such companies so as to fill the research gaps on the area to some extent.

Therefore the study was guided by the following basic questions:

- a. How much effective are the internal audit functions in the companies under study?
- b. What is the impact of management for the effectiveness of internal audit?
- c. What are the contributions of internal auditors' competence for quality internal audit practice?
- d. Are internal auditors in the companies under study independent in carrying out internal audits?

1.3. Objectives of the Study

The study had both general and specific objectives.

1.3.1. General Objective

The general objective of the study is to assess internal audit effectiveness practice in private construction companies.

1.3.2. Specific Objectives

- To assess the extent to which internal auditing is effective in the construction companies under study
- To identify the impact of management support for the effectiveness of internal audit
- To examine the contributions of the competence of internal auditors for quality auditing practice
- To assess independence of internal auditors in carrying out internal auditing in the companies of the companies in To describe the major challenges that hinder the effectiveness of internal auditing in the companies

1.4. Significance of the Study

The study is expected to have a paramount importance to various organizations in general, and to the construction companies under study in particular, which are working to have effective internal auditing practices. To mention, the most salient significances of the study include the fact that it can play an important role in the organizations to improve management and accountability in both financial and non-financial matters. Besides, it provides them with the basis for independent, unbiased assessment of the operations of the organizations. In addition, it provides managements in the business firms with information on the effectiveness of risk management, control and governance processes.

Moreover, the outcomes of the study would be significant for the firms to understand factors determining the internal audit effectiveness in corporate governance. It would also be helpful for other employees and internal auditors could compare their performance with effective internal audit function: and other members of corporate governance (board of directors, audit committee and external auditors) could use the findings to account in their interactions to better equip internal audit functions for their role in corporate governance effectiveness. Furthermore, it could fills the literature gap to the internal audit effectiveness by providing empirical evidence that increase the body of

knowledge in understanding the factors that influence the effectiveness of internal audit function. On top of these, other researchers may find it to be useful for it serves them as a springboard to conduct studies on the area at a relatively greater depth and scope.

1.5. Scope of the Study

The study was delimited to the private construction companies in Addis Ababa City, specifically among Yotek, Sunshine, Yencomad and Sur Construction Companies. The companies were selected due to their well known, having the largest share among the local companies, well experienced, expected to establish an internal audit service and also theirs accessible to the researcher. It was also confined to investigating factors that determine the effectiveness of internal auditing in these companies. The result of the study and its conclusions represents and taken only to be the case of internal audit effectiveness and determinants of this practice of the four private construction companies. However, the recommendations which are suggested so as to maintain effective internal auditing processes could be applied in other companies which are working to have effective internal audit within their firms.

1.6. Limitations of the Study

The study faced with few limitations that affected its outcomes to some extent. To mention, reluctance of few respondents among selected samples to be interviewed was one of the limitations encountered during the study. Besides, delaying the questionnaire to return it back responded by some participants were among the major limitations of the study. The fact that the problem was studied in only four private construction companies out of twenty one companies due to the researcher's intention to make the study manageable was the other limitation. The study would have come up with a better result if many of these companies were included.

1.7. Definition of Key Terms

Assurance services: objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes

Auditing: a formal careful examination of an organization's accounts or financial and non-financial resources (Merriam-Webster Dictionary)

Consulting services: advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve business operations

Determinants: elements that identify or determine the nature of something or that fix or condition an outcome (Merriam-Webster Dictionary)

Internal audit function: an internal audit charter established by authority of board of directors or the head of an organization in which responsibilities are defined and approved by audit committee (IAA, 1999)

CHAPTER TWO

2. Review of Related Literatures

This chapter presents reviews of related literature which are taken from various scholarly works, education journals, and website sources that are relevant to the study. The review of literature is intended to provide the reader with an understanding of determinants for effective internal audit practices, thus providing the reader with a factual background in order to gauge this study.

2.1. Theoretical Review

2.1.1 Internal Audit Effectiveness

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart and Kent 2006). The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Effective internal audit has four main methods. These are;

1. **verification of written records;**
2. **analysis of policy;**
3. **evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies;** and
4. **reporting recommendations for improvements to management** (Eden and Moriah 1996).

In reality, IA has become an indispensable management tool for achieving effective control in both public and private organizations (Eden and Moriah 1996). Control mechanisms are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of seeing that enterprise objectives are met (Sawyer 1988; Coram, Ferguson and Moroney 2008). By detecting weaknesses in management operations, IA provides a basis for correcting deficiencies that have escaped the first line of defense before those deficiencies become uncontrollable or are exposed in the external auditor's report (Eden and Moriah 1996).

Effective IA can improve four important processes in the organization. These are;

- learning (teaching members how to do their job better),

- motivation (auditing leads to improved performance as deficiencies will have to be explained),
- deterrence (knowing that an audit is imminent may discourage abuse), and
- process improvements (IA may increase the likelihood that the right things are done and that they are done right) (Eden and Moriah 1996).

The Institute of Internal Auditors (IIA, 1999) defined internal audit as: “an independent, objective assurance and consulting activity designed to add value 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”.

2.1.2. The Role of Internal Audit

Management is responsible and held accountable for assuring adequate internal controls are in place and operating effectively and efficiently. Internal Audit’s fiduciary responsibility, as defined in the “Standards for the Professional Practice of Internal Auditing” published by the Institute of Internal Auditors (IIA) is to review, verify and assess that internal control adequately protects the interests of the organization and its constituents. All the IA work is based upon the relative risk of an activity and its potential exposure to the organization. This exposure can be in areas such as fraud, loss, errors, inefficiency, non-compliance with the law and/or ineffective operations. Once an area of risk is identified, different tools for different issues would be use and all of which are focused on reducing risk and improving efficiency and effectiveness.

Internal Audit maintains contact with auditee parties to establish a current risk profile and to determine the most effective way to address internal control risks. In order to help the organization meet future challenges, Internal Auditing approach must be active in facilitating business performance while maintaining and/or improving internal control. The Detection and Opportunity

quadrant activities correct internal control and business performance deficiencies by focusing on current state issues, while prevention and solution activities are more forward looking.

Prevention and solution activities are ways to reduce existing as well as future risks and lead to effective and efficient internal control. By using tools such as System Development Reviews, Internal Control Education, Self Assessment and others, Internal Auditing adds considerable shareholder value to the business process before risks directly affect business performance. In this way, Internal Audit enables each business and/or function to reach peak performance and helps optimize performance over time.

Internal Auditing uses a variety of tools which are focused on improving internal control by reducing risk, improving efficiency and effectiveness and/or insuring compliance with the law. Internal audit offers a variety of services as detailed below:

SYSTEM DEVELOPMENT REVIEW (SDR) - System Development reviews are conducted as part of the prevention quadrant of Internal Auditing process. A SDR promotes the inclusion of cost effective controls into systems prior to implementation and assures that the controls will operate as intended when implemented.

BUSINESS PROCESS IMPROVEMENT (BPI) - Internal Auditing may initiate or participate in internal control related business process improvement activities. BPI is used to identify and minimize control deficiencies in business processes and is designed to assist the organization in making process changes that result in strengthened internal control and optimal performance.

INTERNAL CONTROL EDUCATION - This assists the organization by preparing and performing training sessions in an effort to reduce risks and increase internal control awareness. Internal Audit gains an enhanced understanding of the

business value of internal control and business ethics and applies this to training methodologies.

INTERNAL CONTROL ASSESSMENT - This provides an overall assessment of the current state of internal control and future risks. Internal control assessments are conducted periodically on a corporate, regional, business unit and functional basis.

CONSULTING - This is an Internal Auditing activity normally provided in response to a request from management. It is designed to provide expertise in the resolution of internal control issues. Consulting may involve answering questions, developing solutions to problems, recommending courses of action and/or formulating an opinion. Consulting may also involve the review of proposed procedures for internal control content.

SELF ASSESSMENT - Self assessments are performed by the client based upon a framework to be provided by Internal Auditing. Internal Auditing will be an active participant in self assessment activities which involve an assessment of risk and control activities within the business and/or function under review.

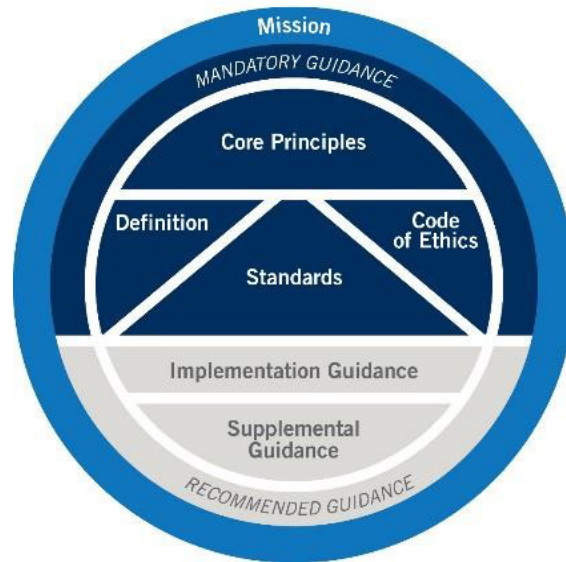
PROCESS AUDITS - Internal Auditing undertakes comprehensive analyses and appraisals of all phases of business activities and provides management appropriate recommendations concerning the activities reviewed. The product includes business process audits which appraise the adequacy and efficiency of accounting, financial and operating controls; information system audits which focus on technical IS audit activities, system development and application reviews, reviews of emerging technology; and, new site reviews which occur in the early stages of start-up operations, joint ventures or acquisitions to ensure that cost-effective internal control is in place.

INVESTIGATIONS - This service provides an independent review of facts and circumstances surrounding an event or series of events and presents

recommendations to management for appropriate resolution/action. Investigations are often associated with known or suspected wrong doing, waste, fraud, abuse of assets, other business ethics violations and/or serious mismanagement.

According to the literature, it is argued that internal audit contributes to organization's compliance with applicable laws and regulations, facilitates the work of external auditors (Simunic, 1984; Wallace, 1984; Xiangdong, 1997), detects the weaknesses in business procedures (Sawyer, 1995) and provides independent assessment to business operations and procedures (Kinney, 2000; 2001). Along with the above, internal audit enhances corporate governance structure (Roth and Espersen, 2002; Hay et al., 2008), helps in strategic management planning (Melville, 2003), assesses business risk (Spiraand Page, 2003; Sarens and De Beelde, 2006; Karagiorgos et al., 2009; Mohamud and Salad 2013) and adds value to the organization (Drogalas et al., 2014). Consequently, effectiveness of internal audit is of major importance for business success. Certainly, International Standards for the Professional Practice of Internal Auditing (ISPPIA) is essential in meeting internal audit's effectiveness.

The IIA has publicize International Professional Practice Framework (IPPF), which is the conceptual framework that organizes authoritative guidance.



source: institute of internal auditors website.

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. It describes the value that internal audit delivers to its host organization and incorporates the internal audit value proposition

For an internal audit function to be considered effective, all **Principles** should be achieved. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may vary from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission. The core principles for the professional practice of internal auditors are;

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.

- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

"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."

The purpose of Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, as it is founded on the trust placed in its objective assurance about governance, risk management and control. The Code of Ethics has two components: These are **Principles that are relevant to the profession and practice of internal auditing**; and **Rules of Conduct that describe behavior norms expected of internal auditors.**

The rules are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors

The Standards are based on the core principles and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of statements of basic requirements for professional practice of internal auditing and for evaluating effectiveness of its performance; and interpretation which clarify terms with in the statement.

Implementation Guides assist internal auditors in applying the Standards. They collectively address internal auditing approach, methodologies, and consideration, but do not detail processes or procedures.

Supplemental Guidance provides detailed guidance for conducting internal audit activities. These include topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.

However, International Standards for the Professional Practice of Internal Auditing (ISPPA) is essential in meeting internal audit's effectiveness, there are some other potential factors that can influence the internal audit effectiveness.

2.2. Empirical Review

As the main aim of this research is to assess the effectiveness of internal audit in the private construction sector, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. For the ease of presenting the literature those studies regarding the main determinants/factors/ that influence the effectiveness of internal audit in the construction sector; such as the quality of internal audit, audit team competency, top management support, organizational independence of internal auditors, auditee attribution, management perception towards internal audit value and audit committee reviewed from different researchers are included in these literature.

2.2.1. Quality of internal audit is evaluated in perspective of effective audit planning and supervision (Prawit, et al., 2010), internal audit field work (Ratliff, et al., 1996), finding and reporting, follow-up of internal audit recommendations, and effective communication with external auditors.

Adequate planning is essential to conduct an internal audit (Arens, et al., 2012; Nagy & Cenker, 2002). The internal audit department should adequately plan activities at organizational level and in each specific engagement (Prawit, et al., 2010). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior

management (IIA, 2001). According to ISPPA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance of field work (Tandon, et al., 2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret & Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twajry, et al., 2003; Albercht, et al., 1988; Mihret, et al., 2010; George, et al., 2015). In addition, IA programs used to monitor internal auditor activity (Al-Twajry, et al., 2003; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document IA programs which used to achieve IA objectives (IIA, 2011). This IA programs must be approved before implementation.

IA fieldwork is all about the performance what the auditors planned in the initial stage (Mihret & Yismaw, 2007). At the time of IA field work, internal auditors are required to be careful while collection of evidence and evaluating the auditee status (Mihret A.G., 2011). Thus, internal auditors should give special attention to IA fieldwork. Because it is the vantage point of IA works. Working papers are used in the field work stage audit process (Arens, et al., 2012). Audit programs can be supported by audit working papers (Tandon, et al., 2010). Working papers can be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff, et al., 1996).

The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content (Kinfu & Bayou, 2009). According to Sawyer & Vinten, (1996) one of the role of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that the chief audit executive or audit director must prepare accurate audit reports which includes significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the audit report of internal auditor

requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically includes: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009).

The trust of external auditors on the work of internal auditors has grown quite fast (Ward & Robertson, 1980). The main reason for such trust on internal auditors is the quality of work performed by internal auditors (Schneider, 1984; Haron, et al., 2004; Mihret & Admassu, 2011). Existence of effective communication between internal and external auditors has mutual benefit. It increases the efficiency and credibility of financial statements on the external auditors' side and it used to obtain essential information in the assessment of risks in internal auditors side (Abu-Azza, 2012). In addition, if effective communication exists between internal and external auditor, then it will increase the total coverage of audittee effectively and can add value to the organization through reduced external audit fees (Engle, 1999; Al-Twajjry, et al., 2004; Goodwin & Kent, 2006; Haron, et al., 2004; Felix, et al., 2001). As a result, the interaction between internal and external auditors can contribute to the effectiveness of IA (Abu-Azza, 2012). According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts. The internationally recognized auditing professional standards (SAS No.65, AICPA, 1991; ISA No.610) require external auditors to first consider the quality of internal audit in terms of the objectivity, competence and work performed by the Internal Audit function before relying on the work of the internal auditor.

Therefore, quality of IA has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

2.2.2. Audit team competency is the basic factor that can affect the internal audit effectiveness. The audit activity needs a professional staff that collectively has the necessary qualifications and competencies to conduct the full range of audits required by the mandate. Auditors must comply with minimum education requirements established by their relevant professional organizations. The IIA's standard 1210 on proficiency of the auditor requires that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999b). The competence of all staff involved in the IAF is crucial, being clarified as a prime component of effective internal audit activity (IIA, 2006). Internal auditors must be sufficiently qualified, and in possession of all the requisite knowledge and skill to discharge the responsibilities associated with audit duties (ISPPA).

What Are Core Competencies and Why Are They Important?

Competencies are skills that are essential to perform certain tasks. While all competencies are considered by some auditors as important, core competencies consist of the most important essential skills. The study identifies core competencies as those rated most important by the survey respondents. The IIA's Code of Ethics requires competency for the services internal auditors provide. Code of Ethics Rule 4.1 states "Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience." Code of Ethics Rule 4.3 states "Internal auditors shall continually improve their proficiency and the effectiveness and quality of their services." Internal auditors may spend a significant amount of time annually on continuing professional education to improve their internal audit competencies. By identifying and prioritizing their core competencies and organizing their competency development process around them, internal auditors may improve their core competencies, benefit their organizations, and increase their opportunities for career advancement

The IIA Global Internal Audit Competency Framework (the Framework) is a tool that defines the competencies needed to meet the requirements of the International Professional Practices Framework (IPPF) for the success of the internal audit profession.

A competency is the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills, and behavior. The Framework provides a structured guide, enabling the identification, evaluation, and development of those competencies in individual internal auditors.

The Framework outlines the 10 core competencies recommended for each broad job level, namely internal audit staff, internal audit management, and the chief audit executive. Each core competency is supported by a list of more detailed competencies that further define the core competency statement. While the core competencies have been defined individually, it should be understood that there are connections and interdependencies among all of the competencies.

The Framework consists of 10 core competencies:

- I. Professional ethics: Promotes and applies professional ethics
- II. Internal audit management: Develops and manages the internal audit function
- III. IPPF: Applies the International Professional Practices Framework (IPPF)
- IV. Governance, risk and control: Applies a thorough understanding of governance, risk, and control appropriate to the organization
- V. Business insight: Maintains expertise of the business environment, industry practices, and specific organizational factors
- VI. Communication : Communicates with impact
- VII. Persuasion and collaboration: Persuades and motivates others through collaboration and cooperation

- VIII. Critical thinking: Applies process analysis, business intelligence, and problem solving techniques
- IX. Internal audit delivery: Delivers internal audit engagements
- X. Improvement and innovation: embrace change and drives improvement and
- XI. innovation

The following chart depicts the structure of the Framework and how the core competencies relate to each other:



Therefore, internal audit team competency has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

2.2.3. Top management support is one of the most important factors affecting internal audit effectiveness. To realize the effectiveness of internal audit in performing its function cannot be separated from aspects of management support both in public and private sector organization (Albrecht et. al. 1988). Management support is an important factor that cannot be underestimated in determining the success of the organization (Schwartz et al. 2005, Alzaban & Gwilliam 2014). Internal supervisors try to obtain greater support from management but at the same time try to distance themselves from the influence of management.

The role and function of internal audit is an internal supervisor that try to provide added value for the organization and as a means of performance evaluation. Thus, the management should give response and take further action on the finding and recommendation given by the internal auditor. Fernandez & Rainey (2006) argue that based on a comprehensive literature review, the support from top management support plays an important role in organizational renewal. Sarens & Beelde (2006a,b) also studied the internal audit function relationship with management and concluded that management requires the internal audit function to take an extended role to compensate for loss of control resulting from increased organizational complexity. A number of empirical studies have found that the support of top management is a key factor to improve the quality of internal audit (Ebrahimpour & Lee, 1988).

Further, it is reported in studies conducted in public sector that management support has a strong impact up on the effectiveness of IAF and also internal auditors are expected to safeguard corporate culture through personal contacts with people in the field (Christopher et al. 2009).

The authority of the audit activity and its mission should be understood and supported by a broad range of officials, as well as by the top managements. Mihret and Yismaw (2007) argued that there is a positive relationship between top management support and internal audit effectiveness. Management

support is also considered as the main determinant of internal audit effectiveness according to Cohen and Sayag (2010). Similarly, Alzeban and Gwilliam (2014) indicated that management support is positively and significantly associated with internal audit effectiveness and is also positively associated with all the other variables affecting internal audit effectiveness.

Therefore, top management support has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of the study, the following research hypothesis is formulated:

2.2.4. Independence is the factor that mainly affects the IAE. The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditee's. Independence is of paramount value in providing effective internal audit service to the management, it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited. Internal audit without independence becomes a part of the management team, losing its ability to offer a fresh perspective (Yee et al., 2008). Independence of internal audit is considered by Zhang et al. (2007) as a determinant of internal audit effectiveness. Cohen and Sayag (2010) also argue that organizational independence of internal audit affects internal audit effectiveness.

The IIA definition of internal audit highlights the independence and objectivity of internal auditing with respect to both assurance services and consulting. Independence and objectivity are closely related. However, the Glossary to the IIA Standards distinguishes between the two concepts in the following way:

“Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.” whereas; “Objectivity is an unbiased mental attitude that allows internal auditors to

perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.

Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.” Hence, the IIA’s distinction between the two terms appears to be that objectivity is a state of mind while independence is the state of affairs that permits an internal auditor to operate with an objective attitude. While the IIA standards (IIA, 2009a) emphasize independence at the organizational level, the definition indicates that it is also important at the individual, engagement and functional levels.

The IIA Code of Ethics (IIA, 2009b) consists of a number of basic principles which internal auditors are expected to uphold, together with rules of conduct which describe the norms of behavior expected of internal auditors. The principle relating to objectivity requires internal auditors to “exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.” Furthermore, internal auditors are expected to make a balanced assessment of all the relevant circumstances and they should not be unduly influenced by their own or others’ interests when forming judgments. The rules of conduct specify that internal auditors:

- I. shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment;
- II. shall not accept anything that may impair or be presumed to impair their professional judgment; and
- III. shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

The IIA has issued a number of attribute standards (IIA, 2009a) and associated practice advisories (IIA, 2009c) relating to independence and objectivity.

Standard 1100 states that “the internal audit activity must be independent, and internal auditors must be objective in performing their work.” To achieve the required degree of independence, the chief audit executive (CAE) should

have direct and unrestricted access to senior management and the board and this can be achieved by a dual reporting relationship.

Attribute Standard 1110 further discusses organizational independence based on the CAE reporting to a level in the organization that permits the internal audit activity to fulfill its responsibilities. The standard stresses that the CAE must confirm the organizational independence of internal audit to the board at least annually. The related Practice Advisory 1110-1 stresses that the CAE should ideally report functionally to the board and administratively to the chief executive officer (CEO). As a minimum, administrative reporting should be to an executive with “sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications and appropriate action on engagement recommendations”.

Attribute Standard 1120 relates to individual objectivity and requires internal auditors to “have an impartial, unbiased attitude and avoid any conflict of interest.” The related Practice Advisory 1120-1 stresses the need to avoid potential and actual conflicts of interest and bias at the individual level and suggests that staff assignments should be rotated periodically. Attribute Standard 1130 discusses the need to adequately disclose to appropriate parties any impairment to independence or objectivity. Examples of impairment include internal auditors assessing operations for which they were previously responsible. Other impairments noted in the Glossary to the Standards are personal conflicts of interest, scope and resource limitations, and restrictions on access to records, personnel and property. Various practice advisories are related to impairment of independence and objectivity. Practice Advisory 1130-1 requires internal auditors to report to the CAE any situations involving actual or potential impairment and highlights the importance of not accepting fees, gifts or entertainment from audit clients. Practice Advisory 1130.A1-1 does not permit staff transferred or temporarily assigned to internal audit to undertake audits of activities that they previously performed until at least one year has elapsed. Practice Advisory 1130.A2-1 stresses that internal auditors should not

have responsibility for non-audit functions that are subject to internal audit assessments.

In addition to the standards and advisory statements, the IIA has also published a framework to guide internal auditors with respect to independence and objectivity (Mutchler *et al.*, 2001). In this framework independence is recognized as a state where threats to objectivity are appropriately managed. Hence, internal auditors are required to identify, assess and manage threats to their objectivity, including the need to consider safeguards that can mitigate the effects of the threats.

On an individual level, the framework discusses seven threats to an internal auditor's objectivity. These are;

- I. **self-review**, where the internal auditor reviews his/her own work;
- II. **social pressure**, where the internal auditor is exposed to pressure from, say, the auditee, or others on the audit team;
- III. **economic interest**, resulting from incentive payments or from auditing the work of someone who has the power to affect the internal auditor's employment or salary;
- IV. **personal relationship**, where the internal auditor is a relative or friend of the auditee;
- V. **familiarity**, resulting from a long term relationship with the auditee including having worked in the unit being audited;
- VI. **cultural, racial and gender biases** arising in multinational organizations when the auditor is biased or lacks an understanding of local culture and customs; and
- VII. **cognitive biases** resulting from preconceived notions or the adoption of a particular psychological perspective when performing the audit. These threats can also occur at the internal audit function level, particularly when the function is involved in both consulting and assurance activities.

The framework also gives examples of mitigating factors that act as safeguards against the threats to objectivity. Examples include organizational position and policy statements which increase the status of internal auditors in the organization, a strong and supportive governance environment, appropriate incentive schemes which reward objectivity, the use of teams, and adequate supervision of staff.

Therefore, internal audit function independence has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of the study, the following research hypothesis is formulated:

2.2.5. Auditee attribute: To achieve effective audit work, the auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee. The ease of access to required records varies among the units to be audited. Some departments properly maintain their records and provide full access to the auditors. Whereas, others provide full access to records, though complete records as expected by the auditors are lacking. Still some other are reluctant to cooperate with the auditors.

The capability of the auditees to meet their objectives also reflects on audit quality. The literature reveal that the poor record management system in some areas is more marked than the difficulty of access to files.

2.2.6. Management perception towards internal audit value refers to the degree of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle on achieving planned objectives. This can result in underutilized audit services and ignored audit recommendations which adversely influence the

effectiveness of IA (Arena & Azzone, 2009). When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values.

When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values. Sarens and Beelde (2006) used a case study approach of five Belgian firms to explore the expectations and perception of both senior management and internal auditors with respect to the relationship between these two parties. They find that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship the audit committee is weak. However, senior management's expectations significantly influence internal audit and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization. Based on the collected data using the questionnaire and its statistical analysis, the following hypothesis is tested:

2.2.7. Audit committee: An audit committee is a subcommittee of a company's Board of Directors focuses on corporate governance, specifically, the company's internal controls and financial accounting systems. A company's audit committee typically includes a number of outside directors, or non-executive directors, preferably including individuals with financial accounting expertise. The primary purpose of a company's audit committee is to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations. The committee is expected to review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the

potential impact on financial statements. The committee reviews the results of an audit with management and external auditors, including matters required to be communicated to the committee under generally accepted auditing standards. Controls over financial reporting, information technology security and operational matters fall under the purview of the committee. The audit committee also responsible for the appointment, compensation and oversight of the work of the auditor. The committee also reviews proposed audit approaches and handle coordination of the audit effort with internal audit staff. When an internal audit function exists, the committee will review and approve the audit plan, review staffing and organization of the function, and meet with internal auditors and management on a periodic basis to discuss matters of concern that may arise.

Expectations of internal auditing nowadays are emphasized worldwide, especially in terms of its active inclusion in the creation of value added, primarily by generating information necessary for the identification, understanding and assessment of risks. The permanent task of the internal auditor is dealing with the comprehensive internal control system as an instrument of risk management, including implementation of appropriate internal controls in the business system and constant concern that their function can significantly contribute to the realization of the chosen strategies of risk management (Moeller, 2009).

When it comes to the business activities of large, diversified and decentralized business systems, in today's exceptionally complex and unstable conditions, there is a matter of sufficiency of internal monitoring and its business activities. In such organizations, it is common to organize the internal audit function that monitors internal controls, or offers an additional, higher level of monitoring of the complete business activities of the company. Internal auditing should support and assist in the identification and assessment of exposure to risks and should contribute to a quality of managing those risks;

above all, by maintaining and continuing improvement of the internal control system.

The audit committee is a sub-committee or a consulting body of the supervisory board that has the task of monitoring the process of financial reporting, especially with regard to annual financial statements, and monitoring business risks and control procedures as instruments of risk management as well as monitoring the processes of external and internal auditing. Achieving these fundamental roles along with the tasks of the auditing committee are not possible without results and findings of internal auditing.

The audit committee can strengthen the internal audit function and turn the internal audit into an important resource for implementation of its obligations (Turley & Zaman2004). The audit committee has the obligation and responsibility to: evaluate the organizational independence of the internal audit function and the individual objectivity of internal auditors, to discuss with the chief audit executive reports and the most significant findings of the internal audit activity, especially on the operative efficiency of internal controls, and to examine and approve the annual internal audit plan, to examine and approve the budget for the internal audit, to consider the relation between the internal and external audit and to coordinate its work, and participate in activities of appointing and dismissing the chief audit executive (Moeller, 2009). All of these activities can simultaneously influence the improvement of the internal audit operations in an organization.

There are several research articles dealing with influences of individual characteristics of the audit committee on the relationship between the audit committee and the internal audit function, but they were primarily conducted in countries with a developed auditing profession and system of corporate governance, mainly outside of Europe, In that context, previous research analyzed the relation between the audit committee and the internal audit

function in Canada (Scarborough, Rama, & Raghunandan, 1998; quoted in Goodwin, 2003, p. 264.), Singapore (Goodwin & Yeo, 2001), United States of America (Raghunandan, Read, & Rama, 2001; quoted in Goodwin, 2003, p. 264.), Australia and New Zealand (Goodwin, 2003). The above-mentioned studies were mainly focused on determining the influence of independence of the audit committee members on the relationship between the audit committee and the internal audit function (Goodwin & Yeo, 2001; Scarborough et al., 1998; quoted in Goodwin, 2003, p. 264), then determining, separately, the influence of the independence of the members and their competence in the area of accounting and/or finance on the relationship between the audit committee and the internal audit function (Goodwin, 2003); that is, determining, altogether, the influence of independence and competence of the audit committee members (Raghunandan et al., 2001; quoted in Goodwin, 2003, p. 264) on the relationship of the audit committee and the internal audit function (Scarborough et al., 1998; quoted in Goodwin, 2003, p. 264).

Goodwin and Yeo (2001) have been researching the relationship of the audit committee and the internal audit operations in Singapore and they concluded that there is a higher probability that an audit committee consisting exclusively of non-executive members has a higher interaction with the internal audit function than those audit committees that consist of executive members, i.e., the frequency of meetings between audit committees and internal audit functions and probability of private meetings between them, without the presence of management, is higher in the situation when all members of the audit committee are non-executive members. Raghunandan et al. (2001, quoted in Goodwin, 2003, p. 264) have conducted a research into the relationship of audit committees and the internal audit operations in the USA and affirmed a positive correlation between the existence of accounting and financial knowledge, competence of the audit committee members, frequency of meetings between the audit committee and the chief audit executive and examining suggestions and the results of internal audit operations by the audit

committee. Economic Research-Ekonomska Istraživanja 189 Goodwin (2003) has conducted the research of the relation of audit committees and the internal audit operations on the sample of Australian and New Zealand companies and determined that independence of the audit committee members and their competence in the area of accounting and finance have a complementary influence on the relationship of the audit committee and the internal audit function. Contrary to this, the number of audit committee members with accounting experience is associated with the extent that the audit committee reviews the work of the internal audit function. As stated above, research results confirm the recent requests that members of the audit -committee have to be independent from management and have appropriate knowledge in areas of accounting and/or finance.

The relationship between the internal audit function and the audit committee is an important element of the entire system of the corporate governance (Bishop, Hermanson, Lapides, & Rittenberg, 2000; Scarbrough et al., 1998, quoted in Boubaker & Taher, 2013, pp. 2 and 4). Bishop et al. (2000, quoted in Boubaker & Taher, 2013, p.4) point out the importance of the interaction – as for the internal audit function, so for the audit committee. He also concludes that intensifying the interaction between them can improve the overall quality of the corporate governance. According to Boubaker & Taher (2013), previous studies (Goodwin, 2003; Raghunandan et al., 2001; Scarbrough et al., 1998; Zain, Subramaniam, & Stewart, 2006) are directed to follow three main aspects of observation:

- I. the frequency of the meetings between the audit committee and chief audit executive;
- II. involvement of the audit committee in dismissing the chief audit executive; and
- III. inspection of the performed engagement of the internal audit operations by the audit committee.

The audit committee has important responsibilities related to the internal audit operations, such as inspection of the internal audit program and ensuring the adequacy of scope of the work of the internal audit function. As such, the audit committee has the potential to improve the internal audit operations (Zain et al., 2006 quoted in Boubaker & Taher, 2013, p. 6). The audit committee has to have an efficient communication with the internal audit function, i.e., frequent meetings and discussions with the chief audit executive in order to provide a prompt review of the specific questions and areas (Raghunandan et al., 2001; Scarbrough et al. 1998, quoted in Boubaker & Taher, 2013, p. 5). According to the International Standards for the Professional Practice of Internal Auditing (International Professional Practices Framework, 2013), the chief audit executive has to communicate with, and be in direct interaction, with the audit committee. That means that chief audit executive frequently attends and participates in meetings of the audit committee related to responsibilities of the audit committee for audit oversight, financial reporting, risk management and internal controls. Such a presence in meetings allows the exchange of information related to plans and activities of the internal audit function and on any other questions of mutual interest. Zain and Subramaniam (2007) obtained results of the research conducted in Malaysia that shows the existence of rare, informal communication and limited private meetings between the members of the audit committee and internal audit operations, including the need for the clarity of reporting. In addition, according to the results of the research conducted, the importance of the influence of the audit committee in supporting the activity of the internal audit operations is highlighted. Boubaker & Taher (2013) have researched the relationship between the audit committee and the internal audit function as well as the influence of the audit committee features on stated relationships in Tunisia. This study has shown that the competence and frequency of the meetings of the audit committee have a positive influence on the interaction of the audit committee with the internal audit function, while the size of the audit committee negatively influences this interaction. In addition, according to

results of the research, the independence of the audit committee members has no significant influence on the interaction between the audit committee and the internal audit function. Coetzee and Fourie (2010) have researched the perceptions of chief executive officers, chief financial officers or chief operating officers, as well as chairpersons of the audit committee of the top listed companies in South Africa on the role of the internal audit function in respect of risk. They identified that, based on the perception of chairmen of audit committees and executive directors, it is possible to expect in the future an increase of the contribution of the internal audit function to risk management processes. This results from a higher status and acceptance of internal auditing within the company and cooperation with the audit committee and management.

The purpose of the research is to analyze the influence of the audit committee on the internal audit operations in the company, with respect to quality improvement regarding performance, achieving expected results, purposes and the objectives of the internal audit function.

2.3. Factors Influencing Internal Audit Effectiveness

a. Independence: 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 .

b. Competence: Staff competence is an important key to the effectiveness of the internal audit activities (Al-Twajjry 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.

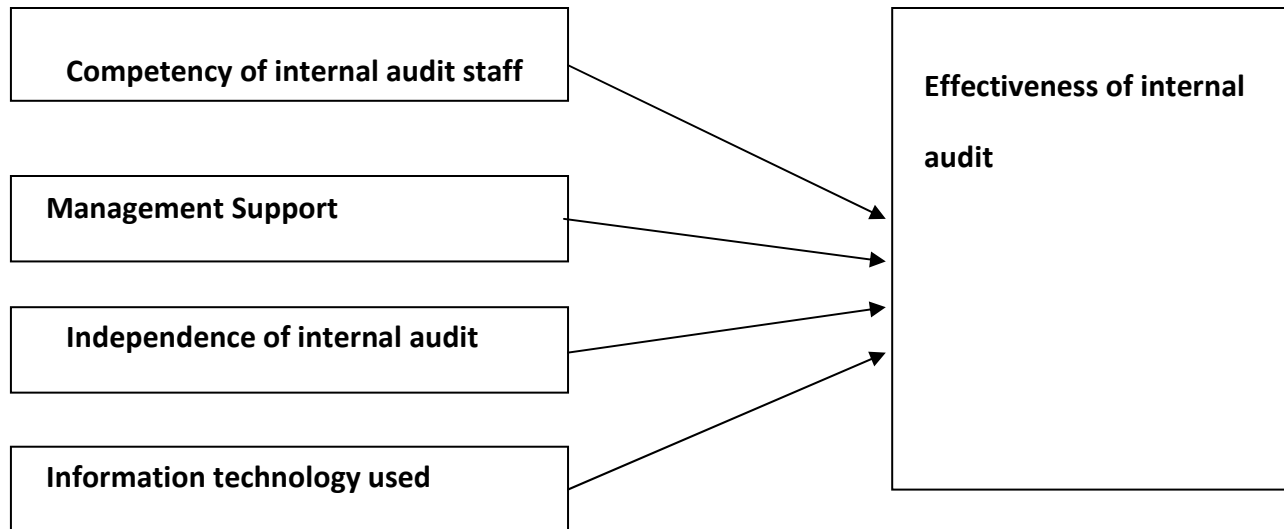
c. Management Support: Management support and commitment have also been evidenced to impact IA effectiveness. In fact, successful IA function depends on the support demonstrated by the management on the process of auditing. It is important that managers acknowledge the fact that IA is a crucial process 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.

d. 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.

Based on the reviewed imperial literatures, the following conceptual framework has been drawn:

2.4. Conceptual Framework for Internal Audit Effectiveness



2.5. Summary of Literature Review and Research Gap

The advantage of having IA function within the organization was increasing the likelihood of detecting and self-reporting fraud than outsourcing functions. Nevertheless, the possibility of realizing these advantages is determined by different organizational characteristics (Coram et al, 2008).

Despite increasing attention to the IA's role within corporate governance, only limited researchers have been examined the determinants of effectiveness of its function. A number of studies were IA related and organizational characteristics to the effectiveness of its function. For example, similar understanding of IA as value adding activity by management and its customer will increase the possibility of regular utilization of IA services and recommendations, that in turn related with IA effectiveness (Flesher and Zanzig, 2000; Arena and Azzone, 2009). In assessing the organizational delivers of IA effectiveness added that the skill of internal auditors team and the independence of internal auditors activities are positively related with internal audit effectiveness (Arena and Azzone, 2009).

As it is analyzed in the literature review, Mihret and Yismaw(2007) argued that there is a positive relationship between top management support and internal audit effectiveness. management support is also considered as the main determinant of internal audit effectiveness according to Cohen and Sayag (2010). Similarly, Alzeban and Gwilliam (2014) indicated that management support is positively and significantly associated with internal audit effectiveness and is also positively associated with all the other variables affecting internal audit effectiveness.

A well-defined audit committee will helps internal auditors operation to be effective and contributes to achieve the attempt of ensuring independent status of internal auditors.

From the literatures review it can be noted that effectiveness of internal audit function is determined by Audit Quality, Auditors competency, Top Management Support, Independence of internal audit, auditee attribution, managers perception towards internal audit value and the availability of audit committee. Since most of the research was investigated the determinants of internal audit effectiveness only in public offices and sectors other than the construction sectors, this Research was conducted in relation to private construction companies along with some of the factors that are used to measure the effectiveness of internal Audit in the previous studies.

CHAPTER THREE

3. Research Design and Methodology

3.1. Research Design

The study was conducted by employing an explanatory research design. The research approaches used to conduct this research were both qualitative and quantitative and the data used to conduct this study were the primary data obtained through the questionnaires and secondary data obtained from reports. Questionnaires were designed and distributed both to the organizations senior management, executives, internal auditors, employees in

the finance and human resource departments. The sample construction companies was selected using purposive sampling method from Addis Ababa which had greater contribution on local construction sector and also more accessible for the researcher due to their similar location. Descriptive statistics was used to explain the data more accurately and in greater detail.

The main objective of this research was to assess the effective internal audit practice in selected private construction companies. To realize this purpose, mixed method, which involves collecting, analyzing and integrating qualitative and quantitative data, was implemented. Data were gathered from management and executive bodies of the companies, as well as from internal audit committees, financial and human resource officers the selected construction companies. Representative samples from these data sources were participated in filling the questionnaires. The study participants for the interview were selected purposely based on their responsibility, involvement in the practice of internal audit and willingness.

3.2. Source of Data

Both Primary and secondary sources of data were used in this study. The primary sources from whom data collected were management, executive and audit members of the companies, employees in the finance and human resource departments. On the other hand, recorded documents relevant to the study which were available in the offices of the management and audit were used as secondary sources of the study.

3.3. Sample Size and Sampling Techniques

The target populations for this research were private **Grade one contractors** that are the biggest construction contractors classification in Ethiopia. who are qualified to undertake construction of building, roads, railways, bridges, airports, dams and other related works found in Addis Ababa. They are 25 in number. Among these companies four of them had selected purposively. Because the use of purposive sampling enables the

researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs. Therefore, this specific research was focused on selected construction companies which had internal audit staffs and had greater contribution on local construction sector and also more accessible for the researcher due to their similar location. The data collection was conducted based on a survey from the selected companies that had internal audit team in their offices. The construction companies that don't have internal audit function were excluded from the study. From each company management members; chief executive officers (CEO), chief finance officers (CFO) and their respective deputy senior managers who have been using the audit result was participated in the study. The internal auditors of those purposively selected companies were also involved in the study.

The sampling process had undergone two stages. These were selecting private construction companies in which the study was to be conducted and selecting representative samples from the companies. Accordingly, four companies were selected out all private construction companies in Addis Ababa by using convenience sampling. These companies were selected due to easy accessibility of subjects of the study to the researcher.

Target population of the study is all executive members of the companies and employees in the financial, human and material resource departments. Based on Cliff (1970), the smaller the population, the larger the sampling ratio that is required for a high degree of accuracy and for a population smaller than a thousand, a sampling ratio of 30% is need. From the four companies, the total population of the study, above 50% of each company was included in the sample for the study. In order to select sample respondents, both random and non-random sampling techniques were employed. Accordingly, purposive sampling method of the non-random sampling technique was employed to select the companies' executive and internal audit members and senior officers in the financial and human resource departments. With this method, 3

respondents from each of the executive bodies and audit committee, 4 from the financial and human resource departments of each company were selected. To this end, the number of respondents chosen non-randomly was 40. On the other hand, 8 sample respondents were selected randomly by making use of lottery method from subordinate officers of each construction company. The number of sample chosen with this method was 36. Hence, the total sample size of the study was 72. Therefore, relevant data were collected for the study from these participants by making use of different data gathering instruments.

The table 3.1 below summarizes the target and sample population of the study

Company	Target Popn	No. of sample		
Yotek	33	17	Mgt & audit committee	6
			Senior Finance & HR officers	4
			Subordinates	7
Sunshine	40	20	Mgt & audit committee	6
			Senior Finance & HR officers	4
			Subordinates	10
Yencomad	33	17	Mgt & audit committee	6
			Senior Finance & HR officers	4
			Subordinates	7
Sur	37	18	Mgt & audit committee	6
			Senior Finance & HR officers	4
			Subordinates	8
Total	142	72	Sample size	72

3.4. Instruments of Data Collection

Different data gathering tools were used to collect data for the study. The tools used were questionnaire, interview and document analysis. These tools were used to collect useable data in different ways.

3.4.1. Questionnaire

A questionnaire which consists of both close-ended and open-ended items were prepared and administered among selected samples so that they responded to it. It was prepared after several literatures related to the problem investigated had been reviewed. This data collection tool provided various advantages for the study. To mention, it enabled the researcher to collect a lot of data with less time and cost involved. It was also helpful to get the respondents honest

responses for it provided them with a relatively better freedom to respond what they believed to be right about the research problem.

3.4.2. Interview

Data for the study was also collected through interviews. Accordingly, semi-structured questions were prepared and interviews conducted with some of the sampled research participants. Due to consensus created with the respondents for better understanding on the topics discussed, the medium of communication used in the interview was Amharic language. The responses provided by the interviewee was manually recorded by the researcher and translated in to English language at the later stage. The advantage of using this interview in the study was due to the fact that it is adaptable to ask for details as to why they believed, felt or responded in a particular way. In addition, it is a useful tool to get the informants' deep-rooted knowledge on the problem studied.

3.4.3. Document Analysis

In order to collect further data for the study, relevant documents were reviewed and analyzed. The documents analyzed were the companies' internal audit and performance reports documents as well as auditing guidelines established in the companies among other relevant documents.

3.5. Procedure of Data Collection

A certain procedure of data collection was followed to collect data. Accordingly, the first task in this procedure was administering the questionnaire to sample respondents. The second activity carried out in this procedure was conducting interviews with some of selected sample respondents. As a third and last step of this procedure, documents which had relevance to the study were analyzed. Then, the task of analyzing the entire data collected by using the above mentioned tools was carried out.

3.6. Variables of the Study

The study examined and tested whether the dependent variable is affected by the independent variables using the instruments utilized for data collection.

3.6.1. Dependent Variable

- Determinants of internal audit effectiveness

3.6.2. Independent Variables

- Quality of internal audit
- Audit team competency
- Top management support
- Independency of audit team
- Management perception

3.7. Pilot Study

Before the main questionnaire was administered to sample respondents, the questions were tested through pilot survey. The pilot test was conducted among three private construction companies which were not chosen for the study. The purpose of the pilot was to check if the design of the questionnaire worked in practice, and to identify and amend problematic as well as poorly constructed questions so that it was refined for the later stage. With the pilot testing, useful feedbacks were obtained on whether the survey's wording and clarity was apparent to all respondents, and whether the questions meant the same thing to all respondents. The pilot was also used to ensure if the respondents understood the objectives of the study, felt comfortable in answering the questions, and if the questions were compatible with their experiences on the issue.

In order to ascertain the validity of data collection instruments, expert opinion was sought from professionals working on the area and from peers regarding face validity, content and format of the questionnaires, as well as on the interviews and entire organization. Consultations with the auditing

professionals and peers helped to identify errors and offered the opportunity to modify and improve the instruments.

3.8. Validity and Reliability Test

In order to ascertain the validity of data collection instruments, expert opinion was sought from seniors, researchers and peers on face, content and format of the questionnaires, interviews and group organization. Consultations with these people had helped the researcher to identify errors and offer the opportunity to modify and improve the instruments. Also to determine the validity and reliability of the research instrument, a pilot study was done in other private construction companies that were not selected for the study. Drawing on the expert opinions from seniors, researchers and peers, appropriate corrections were made on the instruments.

3.9. Method of Data Analysis

Data analyses are conducted through a descriptive statistics to provide details regarding the demographic question and the various factors that affect the effectiveness of IA in the selected companies that are mentioned above. The results of the study have been presented using different descriptive statistics such as tables, frequencies and percentages.

On the other hand, the data that were collected from informants' response given to the open-ended items of the questionnaire, and those obtained during the interviews, and relevant documents were analyzed qualitatively. When analyzing the data by using this method, similar responses provided for each item were sorted out and put under a set of category. In addition to this, differing responses given to each item were identified and put in different categories; then the data were analyzed accordingly. Moreover, relevant interpretations and intensive discussions are given on the overall analyzed data.

3.10. Ethical Considerations

Ethical clearance for this research was obtained from Addis Ababa University College of Business and Economics office of Accounting and Finance. A letter of permission and support was also obtained from this office and presented to the selected private construction companies' administration Offices.

The purpose of the study was clearly explained to all concerned bodies and participants of the study. Before administering the questionnaire and conducting interviews, participants were briefed on the purpose of the study, the process of data collection, the confidentiality of the information they give. To ensure confidentiality, the data collected were protected from access of other people. Any record or document was kept away from unauthorized reach. The research participants were also ensured that the data they provided and the result of the study would be utilized only for academic purposes and also there would no risk or harm against them due to participating in this research project.

CHAPTER FOUR

4. Presentation, Analysis and Interpretation of Data

This chapter presents analysis and interpretation of data collected by making use of different data collection instruments regarding the determinants of internal audit effectiveness in the companies under study.

4.1. Demographic Characteristics of Respondents

Table-4.1: A table that shows the demographic characteristics of respondents

Respondents' characteristics		No. of Respondents	Percentage
Sex	Male	38	52.7%
	Female	34	47.2%
	Total	72	100%
Age	From 20-30	14	19.4%
	From 31-40	25	34.7%
	From 41-50	18	25%
	Over 50	15	20.8%
	Total	72	100%
Educational Qualification	Diploma	17	23.6%
	Degree	31	43%
	MA/MSc	14	19.4%
	Other	10	13.8%
	Total	72	100%
Job Position	Executive	12	16.6%
	Internal auditor	15	20.8%
	Finance officer	9	12.5%
	Dept. head	6	8.3%
	Adm. Personnel	30	41.7%
	Total	72	100%
Work Experience	1-10 years	29	40.2%
	11-20 years	33	45.8%
	21-30 years	7	9.7%
	Over 30 years	3	4.1%
	Total	72	100%

Table 4.1 above displays the respondents' demographic characteristic in term of their sex, age, educational qualifications, job position and work experience.

With regard to sex, 38(52.7%) of the total respondents were male while 34(47.2%) of them were female. On the other hand, they were found under different age categories. Accordingly, 14(19.4%) of them were between the age of 20 to 30, and 25(34.7%) of them were between 31 to 40 years old. In addition, 18(25%) of the study participants were in the age group that range from 41 to 50; whereas, 15(20.8%) of the rest of the respondents were over 50 years old.

Moreover, the respondents were found to have a varied educational level and qualifications. To mention, 17(23.6%) of them had diploma level of educational background while 31(43%) of them had first degrees. In addition, 14(19.4%) of them had second degrees, and the rest 10 (13.8%) of the total respondents had educational qualifications other than these.

The table also shows that the participants had different job positions in the construction companies under study. It shows 12 (16.6%) of them were executive members of their respective companies. In addition, 15(20.8%) were internal auditors and other 9(12.5%) of the participants were found to take finance officer job position in the companies. Whereas, 6(8.3%) of them were department heads while 30(41.6%) were found to be administration personnel.

On the other hand, the study participants had different period of work experiences. That is, 29(40.2%) of the participants had 1-10 years work experience; whereas, 33(45.8%) of them had experience ranging from 11-20 years. In addition, 7(9.7%) and 3 (4.1%) of them respectively had 21-30, and over 30 years of work experiences.

The above described demographic characteristics of respondents provide us with a clear picture of the composition of the study participants. It implies that subjects of the study were nearly proportional in terms of number of sex, but with varied age groups. This reveals that the process of data collection was inclusive of both sexes and a range of ages. Besides, the fact that the study participants had largely varied periods of work experience, implies that the data collected were relevant to the study because they were obtained from long, medium and short periods of experiences in the business operation sector. Moreover, in this study, the fact that some of the study participants qualified in diploma and majority of them in first and second degrees, imply that the right informants to the problem studied were participated for they had adequate level of educational competence to respond to the questions they were presented.

4.2. Analysis of Quantitative Data

4.2.1. Quality of the Companies Internal Audit

Table-4.2: A table that shows the qualities of internal audits of the companies

Key: - SA = strongly agree A = agree N = neutral D = disagree

SD = strongly disagree Fr = frequency % = percent

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	The annual audit plan is determined by the internal auditor	20	35	21	37	3	5	8	14	5	9	57	100
2	Auditing is conducted on areas which are very significant to the organization	16	35	18	37	6	5	10	14	7	9	57	100
3	The internal audit is able to cover all organizational units and all issues	19	35	21	37	5	5	9	14	3	9	57	100
4	The response from parties which are being audited are submitted in written form and their response is relevant and comprehensive	10	35	7	37	3	5	16	14	21	9	57	100
5	There is regular follow up by the internal audit staff to examine action taken to correct the problem found	15	35	19	37	6	5	7	14	10	9	57	100
6	The internal auditor also perform other activities such as developing procedures and conducting economic and financial audit	7	35	8	37	7	5	20	14	15	9	57	100

Table 4.2 above displays the data provided by the study participants in response to different items they were presented regarding their views on the

quality of the company's internal auditing. The analysis and interpretation of data they provided are presented below.

Accordingly, item 1 shows 20(35%) strongly agreed on the fact that annual audit plan was determined by the internal auditors; besides, 21(37%) of the respondents agreed on this item. In contrast, 8(14%) disagreed while 5(8.7%) strongly disagreed on the issue. However, the rest 3(5.2%) of them remained undecided. From these data, we can statistically infer that the annual audit plans in the construction companies under study were determined by internal auditors.

Item 2 shows 16(28%) strongly agreed and 18(31.5%) agreed that auditing was conducted on areas which were significant to the company. In contrast, 10(17.5%) disagreed where 7(12.2%) strongly disagreed on this item. The rest 6(10.5%) of the respondents remained neutral. The respondents data imply that internal auditing was conducted more of on areas which were thought to be significant to the companies.

Item 3 shows 19(33%) and 21(36.8%) strongly agreed and agreed respectively on the fact that internal audit covered all units and issues of the company. On the other hand, 9(15.7%) disagreed and 3(5.2%) of them strongly disagreed on the item. However, 5(8.7%) of the rest of the respondents were not sure whether internal audit covered all units and issues of the company. The responses provided by majority of the study participants indicate the presence of internal audit practice that covered all organizational units and all issues within the organizations.

Item 4 of this table shows 10(17.5%) of the respondents strongly agreed and 7(12.2%) of them agreed that the response provided by parties audited was used to be submitted in written forms and was relevant and comprehensive. On the contrary, 16(28%) disagreed while 21(36.8%) of them strongly disagreed on this issue. On the other hand, 3(5.2%) of them remained undecided. Based on the data provided by many of the research subjects, we can statistically

infer that even though the responses provided by parties audited were reported, it did not seem to be absolutely comprehensive.

Item 5 shows 7(12.2%) strongly agreed on the fact that there was regular follow ups by internal audit staff to examine the action taken to correct problems found; in addition, 10(17.5%) of them agreed on the issue. Opposed to this, 15(26.3%) disagreed and 19(33.3%) strongly disagreed on this same issue. On the other hand, 6(10.5%) of the respondents remained neutral. The overall data obtained from the study participants' reveals that internal audit staff did not seem to take follow ups on regular basis.

Item 6 shows 7(12%) strongly agreed and 8(14%) agreed that internal audit was conducted on other activities like developing procedures and performing economic audits. In contrast, 20(35%) disagreed where 15(26.3%) strongly disagreed on this item. The rest 7(12.2%) of the respondents remained neutral. The respondents' data imply that internal auditing did not adequately focus on conducting economic audit and developing procedures.

4.2.2. Competency of Internal Audit Staff

Table-4.3: A table that shows the competencies of the companies' auditors

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	Internal auditing is conducted by qualified personnel	19	33.3	22	38.5	5	8.7	7	12.2	4	7	57	100
2	The company's internal auditors demonstrate adequate skills in their performance	15	26.3	17	29.8	8	14	10	17.5	6	10.5	56	98.2
3	The auditors skills conform to the company's operations	21	36.8	16	28	5	8.7	4	7	8	14	54	94.7
4	Auditors cover the planned scope of auditing activities	16	28	10	17.5	10	17.5	12	21	14	24.5	57	100
5	Audit review activities are conducted on time	10	17.5	6	10.5	7	12.2	15	26.3	19	33.3	57	100
6	Internal auditors perform auditing activities using	7	12.2	9	15.7	4	7	19	33.3	16	28	57	100

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
	modern technology												
7	The auditors use computerized data tools and specific IA software	14	24.5	23	40.3	4	7	7	12.2	9	15.7	57	100

Table 4.3 above portrays the data provided by the study participants in response to different items they presented regarding their views on the competences of the company’s internal auditors. Here below is the analysis and interpretation of data they provided.

Item 1 shows 19(33.3%) of them strongly agreed and 22(38.5%) agreed on the fact that internal auditing was conducted by qualified personnel. In contrast, 7(12.2%) of the respondents disagreed while 4(7%) of them strongly disagreed on this item. However, 5(8.7%) of the total respondents remained neutral. To this end, statistically we can infer that the companies’ auditors under study had the required educational qualifications to conduct auditing activities.

Item 2 shows 15(26.3%) of the respondents strongly agreed on the fact that internal auditors demonstrated adequate skills in their performance, and 17(29.8%) of them agreed on the item. On the other hand, 10(17.5%) and 6(10.5%) responded the item disagree and strongly disagree respectively. The rest 8(14%) remained undecided. The response provided by majority of the research subjects indicates that the companies’ auditors were skillful in performing the required auditing tasks.

Item 3 of this table shows 21(36.8%) strongly agreed while 16(28%) agreed that the auditors’ skills conformed to the companies’ operations. On the contrary, 4(7%) disagreed where 8(14%) of them strongly disagreed on the item. However, 5(8.7%) of them were not sure whether the companies’ auditors skills conform to the operations of the companies. This implies that the skills of auditors of the companies fitted with the companies’ operations and auditing needs.

Item 4 shows 16(28%) strongly agreed and 10(17.5%) agreed on the fact that the auditors competently covered the planned scope of auditing activities. In contrast, 12(21%) disagreed while 14(24.5%) of them strongly disagreed on this issue. On the other hand, 5(6.9%) of the respondents remained undecided. The implication of these data is that the planned scopes of the companies' audits were not covered effectively to the required level.

Item 5 shows 10(17.5%) and 6(10.5%) of the respondents strongly agreed and agreed respectively that audit reviews were conducted on time. On the other hand, 15(26.3%) of them disagreed while 19(33.3%) disagreed on this item. The rest 7(12.2%) remained neutral. By making use of statistical inference one can understand that although there were auditing review practices in the companies, the reviews were not performed on due time.

Item 6 shows 15(26.3%) strongly agreed on the fact that internal auditors performed auditing activities by using modern technology, 21(36.8%) of the respondents agreed on this item. In contrast, 10(15.2%) disagreed while 7(11.1%) strongly disagreed on the issue. However, the rest 4(7%) of them remained undecided. From these data, we can infer that the auditing activities in the construction companies under study were conducted by making use of the available technology of the time.

Item 7 shows 14(24.5%) strongly agreed and 23(40.3%) agreed that auditors used computerized data tools and IA software. In contrast, 7(18%) disagreed where 9(11.8%) strongly disagreed on this item. The rest 4(7%) of the respondents remained neutral. The respondents data imply that internal auditing was conducted more of by using computerized data tools and the right software to the audits performed.

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 (ISPPPIA) 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.

4.2.3. Independence of Internal Auditors

Table-4.4: A table that shows the companies' auditors independence

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	You perform audits independently	6	40	4	26.6	-	-	3	20	2	13.3	15	100
2	The time and scope of the company's audits are determined by the audit committee	3	20	5	33.3	2	13.3	1	6.6	4	26.6	15	100
3	Audit committee is autonomous to decide the procedures of auditing	4	26.6	5	33.3	3	20	3	20	-	-	15	100
4	Auditors independently conduct audits based on the audit standard and policy	5	33.3	4	26.6	2	13.3	3	20	1	6.6	5	100
5	You are free to perform the company's audit activities objectively	4	26.6	6	40	-	-	3	20	2	13.3	15	100
6	You feel free to reveal the real audit findings in the audits reports	3	20	6	40	1	6.6	4	26.6	1	6.6	15	100
7	The company's auditors freely access necessary documents, information or data about the company from management bodies	2	13.3	3	20	2	13.3	3	20	5	33.3	15	100

Item 1 of this table shows 6(40%) of the respondents strongly agreed and 4(26.6%) of them agreed that they performed audits independently. On the contrary, 3(20%) disagreed while 2(13.3%) of them strongly disagreed on this issue. On the other hand, 2(2.7%) of them remained undecided. Based on the data provided by many of the research subjects, we can statistically infer that

auditors of the companies used to conduct internal audits with independence and without interference and/or influence of superiors.

Item 2 shows 3(20%) strongly agreed on the fact that the time and scope of the company's audits were determined by the audit committee; in addition, 5(33.3%) of them agreed on the issue. Opposed to this, 1(6.6%) disagreed and 4(26.6%) strongly disagreed on this same issue. On the other hand, 2(13.3%) of the respondents remained neutral. The overall data obtained from the study participants' reveals that the time and scope of internal audits of the companies more of to be determined by audit committees.

Item 3 shows 4(26.6%) strongly agreed and 5(33.3%) agreed that audit committee was autonomous to decide the procedures of auditing. In contrast, 3(20%) disagreed on this item. The rest 3(20%) of the respondents remained neutral. The respondents' data imply that the authority to decide the procedures of internal auditing was vested to audit committee.

Item 4 shows 5(33.3%) strongly agreed and 4(26.6%) agreed on the fact that auditors independently conducted audits based on the audit standard and policy. In contrast, 2(13.3%) disagreed while 1(6.6%) of them strongly disagreed on this issue. On the other hand, 2(13.3%) of the respondents remained undecided. The implication of these data is that the auditors were independent to perform internal audits based on the auditing standards and the companies' policy.

Item 5 shows 4(26.6%) and 6(40%) of the respondents strongly agreed and agreed respectively that they were free to perform the company's audit activities objectively. On the other hand, 3(20%) of them disagreed while 2(13.3%) disagreed on this item. By making use of statistical inference one can understand that the auditors in the companies under study conducted internal audits objectively.

Item 6 shows 3(20%) strongly agreed on the fact that internal auditors feel free to revealing the real audit findings in their audits reports, 6(40%) of the respondents agreed on this item. In contrast, 4(26.6%) disagreed while 1(6.6%) strongly disagreed on the issue. However, the rest 1(6.6%) of them remained undecided. From these data, we can infer that the companies' auditors felt a sense of freedom to disclose the real audit findings in their auditing reports to some extent.

Item 7 shows 2(13.3%) strongly agreed and 3(20%) agreed that the companies' auditors freely accessed necessary documents, information or data about the company from management bodies. In contrast, 3(20%) disagreed where 5(33.3%) strongly disagreed on this item. The rest 2(13.3%) of the respondents remained neutral. The respondents' data imply that auditors did not adequately access all documents, information and/or data about the company they needed from management bodies or superiors.

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).

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.

4.2.4. The Top Management Support

Table-4.5: A table that shows the supports of the companies top management to internal auditors

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	I receive full cooperation from top management of the company	5	33.3	4	26.6	2	13.3	4	26.6	-	-	15	100
2	The top management gives immediate response for audit findings	-	-	3	20	3	20	4	26.6	5	33.3	15	100
3	I can easily get necessary resources that help me perform auditing activities	2	13.3	3	20	-	-	7	46.6	3	20	15	100
4	The company supports me by providing trainings in order to improve and update my skills	3	20	4	26.6	-	-	6	40	2	13.3	15	100
5	The company supports me to introduce myself with new technologies, policies and/or procedures when necessary	2	13.3	5	33.3	1	6.6	3	20	4	26.6	15	100
6	The company supports internal audit staff through budgeting funds for certification to have relevant education in auditing	-	-	2	13.3	3	20	4	26.6	6	40	15	100

The table above displays the data provided by the companies' internal auditors with respect to the supports they received from top management in the practice of auditing. The analysis and interpretation of these data is presented here under.

Item 1 shows 5(33.3%) strongly agreed and 4(26.6%) agreed that they received full cooperation from top management of the company audit committee was autonomous to decide the procedures of auditing. In contrast, 4(26.6%) disagreed on this item. The rest 2(13.3%) of the respondents remained neutral.

The respondents' data imply that the top managements of the companies provided internal auditors adequate cooperation.

Item 2 shows 3(20%) agreed on the fact that the top managements used to give immediate response for audit findings. In contrast, 4(26.6%) disagreed while 5(33.3%) of them strongly disagreed on this issue. On the other hand, 3(20%) of the respondents were not sure whether immediate responses were given to audit findings by the top management. From the responses provided by majority of the research subjects, the top managements of the companies did not seem adequately provide immediate responses for audit findings.

Item 3 shows 2(13.3%) and 3(20%) of the respondents strongly agreed and agreed respectively that they could easily get necessary resources that help me perform auditing activities. On the other hand, 7(46.6%) of them disagreed while 3(20%) disagreed on this item. By making use of statistical inference we can understand that the auditors used to get all necessary resources or facilities easily which they needed to conduct internal audits.

Item 4 shows 3(20%) strongly agreed on the fact that the company supported them by providing trainings in order to improve and update my skills, 4(26.6%) of the respondents agreed on this item. In contrast, 6(40%) disagreed while 2(13.3%) strongly disagreed on the issue. From these data, we can infer that the offices of the companies did not use to support all internal auditors by providing trainings so as to help them improve their skills.

Item 5 of this table shows 2(13.3%) of the respondents strongly agreed and 5(33.3%) of them agreed that the company supported them to introduce themselves with new technologies, policies and/or procedures when necessary. On the contrary, 3(20%) disagreed while 4(26.6%) of them strongly disagreed on this issue. On the other hand, 1(6.6%) of them remained undecided. Based on the data provided by many of the research subjects, we can statistically infer that the company to some extent supported internal auditors to introduce themselves with new technologies, policies and/or procedures.

Item 6 shows 2(13.3%) agreed on the fact that the company supported internal audit staff through budgeting funds for certification to have relevant education in auditing. Opposed to this, 4(26.6%) disagreed and 6(40%) strongly disagreed on this same issue. On the other hand, 3(20%) of the respondents remained neutral. The overall data obtained from the study participants' reveals that much emphasis was not given by the companies to support audit staff through budgeting funds so that the auditors would have relevant education in auditing.

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.

4.2.5. Attributes of Auditees

Table-4.6: A table that shows auditees' attributes

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	All auditees are aware on availing relevant audit documents on time	8	14	10	17.5	7	12.2	18	31.5	14	24.5	57	100
2	All auditees perform activities as per the company's policy	19	33.3	16	28	5	8.7	10	17.5	7	12.2	57	100
3	All auditees consider internal audit functions as	17	30	12	21	10	17.5	8	14	10	17.5	57	100

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
	a value adding unit												
4	Auditees take appropriate measures for audit findings on time	6	10.5	9	15.7	7	12	15	26.3	20	35	57	100
5	Most audit findings are new in feature and need to be corrected permanently	13	22.8	15	26.3	9	15.7	12	21	8	14	57	100

Item 1 shows 8(14%) of the respondents strongly agreed on the fact that all auditees are aware on availing relevant audit documents on time, and 10(17.5%) of them agreed on the item. On the other hand, 18(31.5%) and 14(24.5%) responded the item disagree and strongly disagree respectively. The rest 7(12.2%) remained undecided.

Item 2 of this table shows 19(33.3%) strongly agreed while 16(28%) agreed that all auditees perform activities as per the company's policy. On the contrary, 10(17.5%) disagreed where 7(12.2%) of them strongly disagreed on the item. However, 5(8.7%) of them were not sure whether all auditees perform activities as per the company's policy.

Item 3 shows 17(30%) strongly agreed on the fact that all auditees consider internal audit functions as a value adding unit; in addition, 12(21%) of them agreed on the issue. Opposed to this, 8(14%) disagreed and 10(17.5%) strongly disagreed on this same issue. On the other hand, 10(17.5%) of the respondents remained neutral.

Item 4 of this table shows 6(10.5%) strongly agreed while 9(15.7%) agreed that auditees take appropriate measures for audit findings on time. On the contrary, 15(26.3%) disagreed where 20(35%) of them strongly disagreed on the item. However, 7(12%) of

them were not sure whether auditees take appropriate measures for audit findings on time.

Item 5 shows 13(22.8%) strongly agreed on the fact that most audit findings are new in feature and need to be corrected permanently; in addition, 15(26.3%) of them agreed on the issue. Opposed to this, 12(21%) disagreed and 8(14%) strongly disagreed on this same issue. On the other hand, 9(15.7%) of the respondents remained neutral.

The overall data obtained from the study participants' and presented in table 7 above indicate that the companies' auditees could be attributed in various ways. That is, all auditees performed their activities as per the company's policy. However, it indicates that many of them were not aware of availing relevant audit documents on time.

Besides, they did not largely seem to consider internal audit functions as a value adding unit. Although they use to take appropriate measures for audit findings, the data obtained from many of the respondents imply that auditees didn't take these measures on time. Moreover, most of the audit findings were new in feature and needed to be corrected permanently.

4.2.6. Management Perceptions towards the Values of Internal Audit

Table-4.7: A table that shows the perceptions of management towards internal audit values

No	Item	Scale										Total	
		SA		A		N		D		SD		Fr	%
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%		
1	The company's management has adequate level of awareness towards the roles of internal auditing	4	26.6	7	46.6	2	13.3	2	13.3	-	-	15	100
2	The management considers internal	3	20	5	33.3	1	6.6	4	26.6	2	13.3	15	100

	auditing practice as a value adding activity												
3	The management encourages the implementation of internal audit functions	-	-	3	20	2	13.3	6	40	4	26.6	15	100
4	The position/status of internal auditors is fully recognized by the company's management	3	20	8	53.3	-	-	4	26.6	-	-	15	100
5	The management perceives internal auditing to be important activity that improves the company's operations	2	13.3	3	20	-	-	7	46.6	3	20	15	100

Table 4.7 above portrays the data provided by audit staff about perceptions of the companies' management towards internal audit values.

Accordingly, item 1 shows 4(26.6%) strongly agreed while 7(46.6%) agreed on the fact that the company's management had adequate level of awareness towards the roles of internal auditing. On the other hand, 2(13.3%) disagreed on this item. However, 2(13.3%) of the respondents remained neutral.

Item 2 shows 3(20%) strongly agreed and 5(33.3%) agreed that the companies' management considers internal auditing practice as a value adding activity. In contrast, 4(26.6%) disagreed while 2(13.3%) strongly disagreed on this issue. The rest, 1(6.6%) remained undecided.

Item 3 shows 3(20%) agreed on the fact that the companies' management used to encourage the implementation of internal audit functions. On the contrary, 6(40%) of them disagreed and 4(26.6%) strongly disagreed on this item. However, 2(13.3%) of the respondents remained undecided.

Item 4 of this table shows 3(20%) of the respondents strongly agreed and 8(53.3%) agreed on that the position/status of internal auditors was fully recognized by the company’s management. On the other hand, 4(26.6%) of the rest of the respondents remained neutral.

Item 5 shows 2(13.3%) strongly agreed on the fact that the companies’ management perceived internal auditing to be important activity that improves the company’s operations; in addition, 3(20%) of them agreed on this issue. In contrast, 7(46.6%) disagreed while 3(20%) strongly disagreed on this same issue.

With respect to the perceptions of the companies’ managements towards the values of internal audit, the data presented in the above table imply that the companies’ managements had adequate level of awareness towards the roles of internal auditing. In addition, they considered to some extent that internal audit practice to be value adding activity. However, the response provided by majority of the respondents implies that the companies’ managements didn’t largely perceived internal auditing to be an activity that improves the company’s operations; and they didn’t also adequately encourage the implementation of internal audit functions. On the other hand, the data presented in this table reveal that the position/status of internal auditors was fully recognized by the companies’ managements.

4.2.7. Effectiveness of Internal Auditing

Table-4.8: A table showing the effectiveness of internal auditing in the companies

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
1	Internal auditors effectively identify and report noncompliance activities with company’s policies and procedures	14	24.5	19	33.3	5	8.7	12	21	7	12.2	57	100

No	Item	Scale										Total	
		SA		A		N		D		SD			
		Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
2	Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems of the company	10	17.5	17	30	9	15.7	8	14	13	22.8	57	100
3	The company puts its confidence on internal audit staffs for any problems (non-compliance activities)	12	21	17	30	7	12.2	13	22.8	8	14	57	100
4	The non-compliance reports provided by internal auditors are reliable and significant to my organization/sector	13	22.8	20	35	6	10.5	7	12.2	11	19.2	57	100
5	The number of complaints (doubts) about the internal auditors' finding (report) is very low	7	12.2	10	17.5	6	10.5	19	33	15	26.3	57	100
6	Internal audit ensures the economical, effective and efficient use of resources	11	19.2	8	14	10	17.5	16	28	12	21	57	100
7	internal audit ensures activity performed to be in compliance with established policies, procedures, laws and regulations	21	36.8	16	28	4	7	10	17.5	6	10.5	57	100
8	Internal auditors address corporate risk management problems within the company	15	26.3	19	33.3	4	7	7	12.2	12	21	57	100
9	Internal auditors play roles effectively in addressing the purpose for which audits are conducted	23	40.3	14	24.5	5	8.7	12	21	3	5.2	57	100
10	Internal auditors are capable of carrying out internal control function under current corporate governance rules	13	22.8	20	35	6	10.5	11	19.2	7	12.2	57	100

Item 1 shows 14(24.5%) of the respondents strongly agreed and 19(33.3%) agreed on the fact that internal auditors effectively used to identify and report noncompliance activities with company's policies and procedures. In contrast, 12(21%) of the respondents disagreed while 7(12.2%) of them strongly

disagreed on this item. However, 5(9.7%) of the total respondents remained neutral. To this end, statistically we can infer that the companies' auditors to be more of effective in identifying and reporting states of non-compliances with policies and procedures.

Item 2 shows 10(17.5%) of the respondents strongly agreed on the fact that internal auditors provided useful recommendations and constructive criticisms on non-compliances activities and/or control systems of the company, and 17(30%) of them agreed on the item. On the other hand, 8(14%) and 13(22.8%) responded the item disagree and strongly disagree respectively. The rest 9(15.7%) remained undecided. The response provided by majority of the research subjects indicates that the companies' auditors used to provide recommendations and constructive comments when they found non-compliances in their audit reviews.

Item 3 of this table shows 12(21%) strongly agreed while 17(30%) agreed that the company put its confidence on internal audit staffs for problems (non-compliance activities). On the contrary, 13(22.8%) disagreed where 8(14%) of them strongly disagreed on the item. However, 7(12.2%) of them were not sure whether the companies' put their confidence on internal auditors for any problem related to auditing. This implies that the companies under study were confident enough in the internal auditors.

Item 4 shows 13(22.8%) strongly agreed and 20(35%) agreed on the fact that the non-compliance reports provided by internal auditors were reliable and significant to their organizations. In contrast, 7(12.2%) disagreed while 11(19.2%) of them strongly disagreed on this issue. On the other hand, 6(10.5%) of the respondents remained undecided. The implication of these data is that non-compliance reports made by the auditors were more of significant to the companies for the reports were reliable.

Item 5 shows 7(12.2%) strongly agreed on the fact that the number of complaints (doubts) about the internal auditors' finding (report) was very low;

in addition, 10(17.5%) of them agreed on the issue. Opposed to this, 19(33%) disagreed and 15(26.3%) strongly disagreed on this same issue. On the other hand, 6(10.5%) of the respondents remained neutral. The overall data obtained from the study participants' reveals that complaints found in audit reports were very minimal in the companies.

Item 6 shows 11(19.2%) strongly agreed and 8(14%) agreed that Internal audit ensures the economical, effective and efficient use of resources. In contrast, 16(28%) disagreed where 12(21%) strongly disagreed on this item. The rest 10(17.5%) of the respondents remained neutral. The respondents' data imply that internal auditing did not adequately ensured economical, effective and efficient use of resources.

Item 7 of this table shows 21(36.8%) strongly agreed while 16(28%) agreed that internal auditing ensured activity performed to be in compliance with established policies, procedures, laws and regulations. On the contrary, 10(17.5%) disagreed where 6(10.5%) of them strongly disagreed on the item. However, 4(7%) of them were not sure whether internal auditing ensured activity performed to be in compliance with established policies, procedures, laws and regulations.

Item 8 shows 15(26.3%) strongly agreed and 19(33.3%) agreed on the fact that internal auditors addressed corporate risk management problems within the company. In contrast, 7(12.2%) disagreed while 12(21%) of them strongly disagreed on this issue. On the other hand, 4(7%) of the respondents remained undecided. The implication of these data is that corporate risk management to be effectively addressed by the companies' internal auditors.

Item 9 shows 23(40.3%) strongly agreed on the fact that internal auditors played roles effectively in addressing the purpose for which audits were conducted; in addition, 14(24.5%) of them agreed on the issue. Opposed to this, 12(21%) disagreed and 3(5.2%) strongly disagreed on this same issue. On the other hand, 5(8.7%) of the respondents remained neutral. The overall data

obtained from the study participants' reveals that internal auditors played significant roles to effectively meet the purposes for which internal auditing was conducted.

Item 10 shows 13(22.8%) strongly agreed and 20(35%) agreed that internal auditors were capable of carrying out internal control functions under current corporate governance rules. In contrast, 11(19.2%) disagreed where 7(12.2%) strongly disagreed on this item. The rest 6(10.5%) of the respondents remained neutral.

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.

4.3. Analysis of Qualitative Data

In order to get qualitative data, the study participants were presented with a few open-ended items regarding the practice of internal audit, the types of internal audit performed in the companies and determinants of internal audit effectiveness among other related issues.

Interviews were also conducted with some of the study participants. The questions presented to them focused on the types of audit performed by internal auditors, the impacts of the auditing practice on the companies' overall improvement, the qualities of auditing, and the effectiveness of the companies auditing practice. Thus, the questions presented to these informants and the responses they provided are analyzed and presented below:

To begin with, the respondents were inquired to express the types of auditing performed by internal auditors and the major purposes for which each type of audit was conducted. As the result, the respondents disclosed different types of audits were carried out by internal auditors based on the contexts of their respective company's practice. According to the informants, operation, financial and compliance audits were the major types of audits performed in the companies. In addition to these, some of them added the presence of internal control reviews and information system audits in their companies auditing practice.

In connection with the types of audits they mentioned to have been performed by their respective company's internal auditors, the respondents also stated the purposes for which each type of audit was conducted. As the result, almost all of the interviewees responded in similar ways about the purposes of these audits. Accordingly, they stated that operation audits were mainly conducted to examine the use of resources. On the other hand, financial audits were performed for the purpose of reviewing accounting and financial transactions; whereas, compliance audits were conducted to investigate and determine whether entities were complying with applicable laws.

Moreover, the informants added also the main reasons why internal control reviews and information systems audits were conducted by internal auditors. Accordingly, they explained that internal control reviews were conducted to monitor various areas of the company's operations focusing on the major business activities such as payroll and employee benefits, cash handling, inventory and equipments, physical security among others. With respect to the purpose for which information systems audits were conducted, the respondents disclosed that it was performed with aim of reviewing the internal audit environment of automated information processing systems and how people used these systems.

Following the above mentioned issue, the respondents were presented with a question inquiring them the quality of the audits and the attributes to the audits quality. Consequently, they stated a number of attributes to the qualities of the auditing practice. To mention, the most important ones include the fact that auditing is conducted independently and objectively. Besides, the audits were conducted on areas significant to the companies and covered all units in the companies. The other qualities and attributes the respondents mentioned include that the audits were conducted in line with the working laws and in ways that conform with the established policies, procedures and regulations. In addition, many of the informants mentioned that audit reports were timely communicated to the concerned and responsible management bodies as well as constructive suggestions were provided on areas of the company's operations that needed improvements.

Furthermore, during the interview, a question was raised to the respondents to explain the roles internal auditing plays and what the major impacts of internal auditing were to the companies. Consequently, the study participants explained that internal auditing played a pivotal role for the overall company's good governance and progress. They justified the reasons to be the fact that it played roles in improving management accountability on company's resources and provided independent and unbiased assessment of the operations of the company.

The respondents added that internal auditing had brought about a great deal of positive impacts to the companies due to the fact that it helped to improve the company's operations and accomplish its objectives. They also remarked that the practice of conducting these internal audits were significant to the company for it was helpful to evaluate and improve the effectiveness of risk management; and provided the opportunity to examine the extent to which resources were effectively utilized. Besides, many of the informants underscored that the other positive impact of internal audit to the company was that it enabled managements to assess whether services were rendered

and operations carried out in line with laws, policies and established procedures.

On top of the above discussed internal audits issues, the study participants were presented with a question to inform the degree to which and the areas that the internal audits were effective in their respective companies. The respondents unanimously explained that they perceived internal audits in their companies to be effective to adequate level. They supported their views with what they called the company's existing facts. These were known to be the fact that internal auditing enabled the companies to meet their objectives and goals, as well as on account of enabling them monitor the major business activities such as financial transactions and inventories. Moreover, according to many of the interviewees their companies' internal audits were effective for it enabled the companies maintain safe and efficient cash handling and as the result of these, the companies exhibited sustainable progress and competitiveness.

4.4. Results and Discussion

The study was conducted with the view of investigating determinants of effective auditing in selected private construction companies in the City of Addis Ababa. In order to address the basic questions and to meet the objectives of the study, a great deal of efforts was exerted to gather relevant data by making use of different data collection tools. Consequently, the study has come up with certain results regarding the problem studied. To this end, the main results of the study are presented and discussed below:

To start with, the annual audit plans in the construction companies under study were determined by internal auditors. Besides, internal auditing was conducted more of on areas which were thought to be significant to the companies. The responses provided by majority of the study participants indicate the presence of internal audit practice that covered all organizational units and all issues within the organizations. With respect to

comprehensiveness of audit reports, even though the responses provided by parties audited were reported, it did not seem to be absolutely comprehensive.

The overall data obtained from the study participants' reveals that internal audit staff did not seem to take follow ups on regular basis. In addition, internal auditing did not adequately focus on conducting economic audit and developing procedures. The companies' auditors under study had the required educational qualifications to conduct auditing activities. The response provided by majority of the research subjects indicates that the companies' auditors were skillful in performing the required auditing tasks. As to the perceptions of many of the participants, the result shows that the skills of auditors of the companies fitted with the companies' operations and auditing needs.

On the other hand, the planned scopes of the companies' audits were not covered effectively to the required level. Although there were auditing review practices in the companies, the reviews were not performed on due time. However, the auditing activities in the construction companies under study were conducted by making use of the available technology of the time. On top of this, internal auditing was conducted more of by using computerized data tools and the right software to the audits performed.

Regarding the types of audits, it has become known that different types of audits were carried out by internal auditors of the companies. According to the study participants, operation, financial and compliance audits were the major types of audits performed in the companies. In addition to these, internal control reviews and information system audits were conducted in the companies auditing practices.

Concerning the purposes for which the above mentioned types of audits were conducted, the result of the study reveals that operation audits were mainly conducted to examine the use of resources. On the other hand, financial audits were performed for the purpose of reviewing accounting and financial transactions; whereas, compliance audits were conducted to investigate and

determine whether entities were complying with applicable laws. Moreover, internal control reviews were conducted to monitor various areas of the company's operations focusing on the major business activities such as payroll and employee benefits, cash handling, inventory and equipments, physical security among others. With respect to the purpose for which information systems audits were conducted, the result shows that it was performed with aim of reviewing the internal audit environment of automated information processing systems and how people used these systems.

With respect to the quality of the audits and the attributes to the audits quality, it was known the presence of a number of attributes to the qualities of the auditing practice. To mention, the most important ones include the fact that auditing is conducted independently and objectively. Besides, the audits were conducted on areas significant to the companies and covered all units in the companies. The other qualities and attributes the result of the study reveals were that the audits were conducted in line with the working laws and in ways that conform to the established policies, procedures and regulations. In addition, audit reports were timely communicated to the concerned and responsible management bodies as well as constructive suggestions were provided on areas of the company's operations that needed improvements.

Furthermore, has come up with certain outcomes with respect to the independence of auditors and the auditing practice, as well as the support of top managements of the companies. To mention, the result of the study reveals that the companies used to conduct internal audits with independence and without interference and/or influence of superiors. Besides, the time and scope of internal audits of the companies were more of to be determined by audit committees. The authority to decide the procedures of internal auditing was also vested to audit committee. In addition, the auditors were independent to perform internal audits based on the auditing standards and the companies' policy. The result of the study also shows the fact that the auditors in the companies under study conducted internal audits objectively, and they felt a

sense of freedom to disclose the real audit findings in their auditing reports to some extent. However, auditors did not adequately access all documents, information and/or data about the company they needed from management bodies or superiors.

Regarding supports from managements of the companies the outcomes of the study show that the top managements of the companies provided internal auditors adequate cooperation. However, the top managements did not seem adequately provide immediate responses for audit findings. As to majority of participant auditors, they used to get all necessary resources or facilities easily which they needed to conduct internal audits. On the other hand, it has become known that the offices of the companies did not use to support all internal auditors by providing trainings so as to help them improve their skills. The result of the study also reveals that the companies to some extent supported internal auditors to introduce themselves with new technologies, policies and/or procedures. However, much emphasis was not given by the companies to support audit staff through budgeting funds so that the auditors would have relevant education in auditing.

Regarding auditees attribute, the result of the study shows that many of them were not aware of availing relevant audit documents on time. Besides, they did not largely seem to consider internal audit functions as a value adding unit. Although they use to take appropriate measures for audit findings, the data obtained from many of the respondents imply that they didn't take these measures on time. Moreover, the result reveals that most of the audit findings were new in feature and needed to be corrected permanently.

With respect to the perceptions of the companies' managements towards the values of internal audit, the result shows that the companies' managements had adequate level of awareness towards the roles of internal auditing. In addition, they considered to some extent that internal audit practice to be value adding activity. However, they didn't largely perceived internal auditing to

be an activity that improves the company's operations; and they didn't also adequately encourage the implementation of internal audit functions. On the other hand, the result reveals that the position/status of internal auditors was fully recognized by the companies' managements.

Concerning effectiveness in auditing and non-compliance, the result of the study reveals that the companies' auditors more of seemed to be effective in identifying and reporting states of non-compliances with policies and procedures. They also used to provide recommendations and constructive comments when they found non-compliances in their audit reviews. As the result, the companies under study were confident enough in the internal auditors. In addition, the result of the study shows that non-compliance reports made by the auditors were more of significant to the companies for the reports were reliable. Moreover, it has become known that complaints found in audit reports were very minimal in the companies.

However, internal auditing did not adequately ensured economical, effective and efficient use of resources. On the other hand, the result shows that corporate risk management to be effectively addressed by the companies' internal auditors; they also ensured activity performed to be in compliance with established policies, procedures, laws and regulations. Besides, it has become known that internal auditors of the companies played significant roles to effectively meet the purposes for which internal auditing was conducted and they were capable of carrying out internal control functions under current corporate governance rules.

Moreover, internal auditing played a pivotal role for the overall company's good governance and progress. It had brought about a great deal of positive impacts to the companies due to the fact that it helped to improve the company's operations and accomplish its objectives. Internal auditing also enabled the companies to meet their objectives and goals, as well as enabled them monitor the major business activities such as financial transactions and inventories.

The companies' internal audits were effective for it enabled the companies maintain safe and efficient cash handling among others.

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.1. Summary of Major Findings

The study was conducted with the view of investigating determinants of effective internal auditing in selected private construction companies of Addis Ababa. A great deal of efforts was exerted to address the following basic questions:

- a. What are the qualities that are maintained in the practice of internal auditing in the construction companies under study?
- b. What is the extent to which internal audit functions are effective in the companies?
- c. What are the major factors that contribute to the effectiveness of internal auditing in these companies?
- d. Who are the key role players to the maintenance of effective internal auditing practice in the construction companies?
- e. What are the major challenges that encountered in the process of internal auditing?

As the result, the study has come up with several findings. Here below is summary of the results and major findings of the study.

To begin with, the companies' auditors under study had the required educational qualifications to conduct auditing activities. It also shows that they were skillful in performing the required auditing tasks. Besides, the finding reveals that the annual audit plans in the construction companies under study were determined by internal auditors. Audits were conducted more of on areas which were thought to be significant to the companies. The auditing activities in the construction companies under study were conducted by making use of the available technology of the time.

In addition, the finding of the study shows that different types of audits were carried out by internal auditors. Accordingly, operation, financial and compliance audits were the major types of audits performed in the companies. Besides, the study reveals the presence of internal control reviews and information system audits in their companies auditing practice. With respect to the purposes for which these audits were conducted, it was found out that operation audits were mainly conducted to examine the use of resources. On the other hand, financial audits were performed for the purpose of reviewing accounting and financial transactions; whereas, compliance audits were conducted to investigate and determine whether entities were complying with applicable laws.

Moreover, information systems audits and internal control reviews were conducted by internal auditors. Accordingly, they explained that were conducted to monitor various areas of the company's operations focusing on the major business activities such as payroll and employee benefits, cash handling, inventory and equipments, physical security among others. With respect to the purpose for which information systems audits were conducted, the purpose was known to be with the aim of reviewing the internal audit

environment of automated information processing systems and how people used these systems.

With respect to follow ups, the internal audit staff did not seem to take follow ups on regular basis. Although there were auditing review practices in the companies, the reviews were not performed on due time. The result of the study also reveals that the companies used to conduct internal audits with independence and without interference and/or influence of superiors. Besides, the time and scope of internal audits of the companies were more of to be determined by audit committees. The authority to decide the procedures of internal auditing was also vested to audit committee. However, auditors did not adequately access all documents, information and/or data about the company they needed from management bodies or superiors.

Regarding supports from managements of the companies the findings of the study show that the top managements of the companies provided internal auditors adequate cooperation. However, the top managements did not seem adequately provide immediate responses for audit findings. On the other hand, it has become known that the offices of the companies did not use to support all internal auditors by providing trainings so as to help them improve their skills. The result also reveals that the companies to some extent supported internal auditors to introduce themselves with new technologies, policies and/or procedures.

Concerning the qualities of the audits, the finding shows that the major ones include the fact that auditing is conducted independently and objectively as well as the audits were conducted on areas significant to the companies and covered all units in the companies. The other qualities and attributes were found to be that the audits were conducted in line with the working laws and in ways that conform to the established policies, procedures and regulations.

Moreover, internal auditing played a pivotal role for the overall company's good governance and progress. It had brought about a great deal of positive impacts

to the companies due to the fact that it helped to improve the company's operations and accomplish its objectives. Internal auditing also enabled the companies to meet their objectives and goals, as well as on account of enabling them monitor the major business activities such as financial transactions and inventories. The companies' internal audits were effective for it enabled the companies maintain safe and efficient cash handling.

Regarding auditees attribute, many of them were not aware of availing relevant audit documents on time. They did not also largely seem to consider internal audit functions as a value adding unit. Although they use to take appropriate measures for audit findings, they didn't take these measures on time.

Moreover, most of the audit findings were new in feature and needed to be corrected permanently. The companies' managements had adequate level of awareness towards the roles of internal auditing. In addition, they considered to a lesser extent that internal audit practice to be value adding activity. They didn't also largely perceived internal auditing to be an activity that improves the company's operations; as the result, they didn't adequately encourage the implementation of internal audit functions.

5.2. Conclusions

Based on the outcomes of the study and its major findings, the following conclusions are drawn:

- The construction companies under study possessed certain qualities in the practice of their internal auditing. As the result, the study concludes that the major qualities of the companies auditing to be independence of auditors and they conducted the audits objectively. In addition, the facts that audits were conducted on areas significant to the companies and covered all units in the companies, as well as the audits were conducted in line with the working laws and in ways that conform to the established

policies, regulations and procedures were the other qualities of the private construction companies.

- Internal auditing conducted in the companies was effective to some extent. In this regard, the study concludes that the audits were effective in the fact that it enabled the companies meet their objectives and goals, as well as enabled them monitor their major business activities, transactions and inventories, and maintained safe and efficient cash handling. The key role players to the effectiveness of the audits performed in the companies were the audit staffs and top managements.
- Certain factors contributed to the companies' internal audits effectiveness. In this regard, the study concludes that the presence of quality internal audits and the auditors' competence in performing the audits were factors that contributed to the auditing effectiveness. In addition, independence of the audit committees, the top management supports provided to the auditors, and the fact that the internal audits conducted in the companies covered all aspects of audits in general, and laying a particular emphasis on areas very significant to the companies in particular, were among the factors that contributed to the maintenance of effective auditing practice.
- The study also concludes that the presence of moderately effective internal auditing had brought about positive impacts to the companies. The major impacts include that it helped the companies improve their operations, the effectiveness of risk management and examine the extent to which financial and material resources were effectively utilized. It also enabled the companies made effective assessments on whether the services they rendered and other operations carried out comply with applicable laws, regulations and company policies.
- The practices of internal audits in the companies under study were not free of problems. In this regard, the study concludes that absence of regular follow ups by audit staff and failure to give immediate responses

towards audit findings by top management and the fact that audit reviews not conducted on due time were the major problems observed in the companies. Besides, the planned scopes of the companies' audits were not covered effectively to the required level.

5.3. Recommendations

On the basis of the conclusions of the study, the following recommendations are suggested:

- ✚ Effective internal audit functions could have a paramount importance for the improvement of business operations and maintenance of healthy financial transactions as well as good corporate governance. Therefore, in order to enhance the effectiveness of internal audit functions, companies need to work to have quality internal audits which cover all aspects organizational issues.
- ✚ Internal control is a pillar of good governance that contributes a lot to add values and improve an organization's operations. To this end, business firms need to establish appropriate organizational culture which is helpful to accomplish its objectives by bringing a systemic, disciplined approach to improve the effectiveness of risk management, control and governance process.
- ✚ Internal auditors need to develop and have self-esteem as well as a sense of confidence in performing the audits. They also have to conduct audits objectively and report the real findings of the audits to the concerned management bodies so that immediate responses would be given for the audit findings. Therefore, internal auditors have to be independent and perform the audit activities without interference and influence of top management.
- ✚ For the maintenance of a sound and effective auditing, top management need to cooperate and provide supports to the firm's internal auditors in different aspects they may find to be helpful to conduct their auditing

activities. Besides, they need to support the auditors by providing trainings so that they would update and improve their skills, as well as introduce themselves with new technologies of the time.

Moreover, company managers should work on factors that have influence on internal audit effectiveness. Internal auditors' perception towards factors influencing internal audit effectiveness need to be raised; and also awareness should be created on the fact that competences of IA and management support have significant and positive effect on the internal audit effectiveness.

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Appendix 1: Questionnaires

Addis Ababa University

College of Business and Economics

School of Graduate Studies

Department of Accounting and Finance

Dear Participant:

The intent of this questionnaire is to explore information regarding the determinants of Internal Audit (IA) effectiveness and to conduct Master Thesis (Research) for the partial fulfillment of Masters Degree in accounting and finance at AAU. The questionnaires are distributed to the companies engaged in construction sector that found in Addis Ababa city. The results of the study are expected to help on identifying the determinants of internal audit effectiveness.

The conclusions of the study will be drawn in aggregate terms, without any reference to specific company or individual respondents. Please, do not write your name on the questionnaire. I would also like to assure you that the information you provided will be treated as strictly confidential and used only for the purpose of this research only.

Your honest and thoughtful response is valuable

Thank you in advance for your support and participation.

With best regards,

Tsegaye Hagos Kahisay, Mobile: +251- 929 90 71 44, Email: tsegaye495@yahoo.com

I. Questionnaire Administered to Managers

Objective of the Questionnaire

Effective internal audit function is an important management tool to monitor and direct the internal operations of an organization effectively and appropriately. Therefore, the purpose of this research is to assess and identify factors that affect the effectiveness of internal audit which will be measured in terms of internal auditors' ability in identifying non-compliance activities and the added contribution by internal audit to your organization.

In line with this, you are kindly requested to give your response to your personal profile, and to each statement related with the internal auditors' ability in identifying non-compliance activities and the added contribution by internal audit to your organization as provided in the table below.

A. The personal profiles

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

1. Sex/Gender/: Male (_____) Female (_____)
2. Age (in year): 20 to 29(____), 30 to 39(____), 40 to 49(____), 50 to 59(____), above 60 (____)
3. Your field of study: Accounting (_____), Management (_____), Economics (_____) Other specify_____
4. Level of education: TVET certificate (____), Diploma (____), Bachelor's Degree (____), Masters Degree (____) or others specify_____
5. Current position in your company_____
6. Number of workers in your company_____
7. Number of internal auditors in your company_____

B. The questionnaire items (questions)

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (✓) or circle the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5 = strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = strongly disagree

	The effectiveness of internal auditors' in identifying non-compliance activities and added contributions to the organizations	scales				
	Internal auditors can effectively identify and report any non-compliance activities with company's policies and procedures.					
	Internal Auditors provide useful recommendations and constructive feedback on non-compliance activities or control systems of the company.					
	I use the recommendations, criticisms and information provided by internal auditor for decision making.					
	My office has put its confidence on internal audit staffs for any problem (non-compliance activities).					
	The non-compliance reports provided by internal auditors are relevant and significant to my organization/sector.					
	The internal auditors have confidence to issue audit report because they are capable to determine the nature and frequency of non-compliance activities.					
	The number of complaints (doubts) about the internal auditors' findings is very low because their report is correct and reasonable.					
	Internal audit ensures the economical, effective and efficient use of resources in my office and/or organization.					
	In my office/organization internal audit ensures activity performance.					

	The effectiveness of internal auditors' in identifying non-compliance activities and added contributions to the organizations	scales				
	compliance with established policies, procedures, laws and regulations					
	The recommendations of internal audit department provide practical benefit solutions for correcting the problems that were found.					
	Internal auditors have the experience and expertise to address complex management problems within the organization					
	The existing role that the internal audit is playing sufficient enough to fulfill the very purpose for which it is established					
	Internal auditors in your company are capable of carrying out internal audit function under current corporate governance rules					
	The existence and findings (reports) of Internal Auditors meet my expectations					
	The internal auditor reports are highly considered for decision making and improving internal controls by the management.					

