



Factors Determining the Internal Audit Effectiveness in Ethiopia

In the case of FDRE Ministries

By: Mihret Abebe

**A thesis Submitted to the Department of Accounting and Finance, College
of Business and Economics, Addis Ababa University, In Partial Fulfillment
of the Requirement of Master of Science (Msc)**

In Accounting and Finance

Advisor: Alem Hagos (Phd)

March, 2020

Factors Determining the Internal Audit Effectiveness in Ethiopia

In the case of FDRE Ministries

A thesis submitted to the Department of Accounting and Finance, College of Business and Economics, Addis Ababa University, in partial fulfillment of the requirement of Master of Science (Msc) in Accounting and Finance

By: Mihret Abebe

Advisor: Alem Hagos (PhD)

March, 2020

Addis Ababa, Ethiopia

Statement of Declaration

I declare that the ideas contained in this study are entirely my own, except where otherwise acknowledged. I also certify that the work is original and has not been submitted for any other award.

Name of Student: Mihret Abebe

Signature: _____

Date: March, 2020

Statement of Certification

This is to certify that Mihret Abebe has carried out this research thesis on the topic entitled **“Factors Determining the Internal Audit Effectiveness in Ethiopia, in the case of FDRE Ministries”** in partial fulfillment for the award of Masters of Science (Msc) in Accounting and Finance under my guidance and supervision. I certify that this research work is original in nature and has not presented in any means and to any award.

Name of Advisor: - Alem Hagos (PhD)

Signature: - _____

Date: March, 2020

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

Factors Determining the Internal Audit Effectiveness in Ethiopia

In the case of FDRE Ministries

By: Mihret Abebe

Name of Advisor

Signature

Name of External Examiner

Signature

Name of Internal Examiner

Signature

ACKNOWLEDGEMENTS

First and for most I thank God who is enabling me to complete this study. I wish to express my appreciation to the many people who have in many and various ways helped me to the successful completion of this study. I am deeply thankful to my advisor Dr. Alem Hagos for his constructive critiques, comments, and suggestions have been instrumental in accomplishing to complete this study. I would like to express my gratitude want to thank my good friends Ato Sileshi G/yes, Ato A.A. and Ato A.W. to their all rounded contribution in the process of the study. And also, I am truly grateful to all who have devoted their precious time and expertise, and lent me their hands at all steps of the preparation of this study. Finally, I am also very grateful to my family members who have been supporting and encouraging me throughout the period of the study.

This study could not have been completed without the assistance of all these people.

Mihret Abebe
Addis Ababa,
Ethiopia
March, 2020

LIST OF ACRONYMS AND ABBREVIATIONS

ACIAS = Adequate and Competent IA Staff

CIA = Certified Internal Auditor

CLRM = Classical Linear Regression Model

COMP = Competence of IA teams,

FDRE = Federal Democratic Republic of Ethiopia

IA = Internal Audit

IAC = Internal Audit Charter

IAD = Internal Audit Department

IAF = Internal Audit Function

IIA = Institute of Internal Auditors

EIA = Effectiveness of Internal Audit

IPPF = International Professional Practices Framework

IT = Information Technology

MS = Management Support

MoF = Ministry of Finance

MoFEC = Ministry of Finance and Economic Cooperation

MoFED = Ministry of Finance and Economic Development

OFAG = Office of the Federal Auditor in General

OIIA = Organizational Independence of IA

OLS = Ordinary Least Squares

QIA = Quality of IA Work

SPPIA = Standards on the Professional Practice of Internal Audit

Table of contents

Statement Of Declaration.....	II
Statement Of Certification.....	III
ACKNOWLEDGEMENTS.....	V
LIST OF ACRONYMS AND ABBREVIATIONS.....	VI
Table Of Contents.....	VII
List Of Tables.....	X
List Of Figures.....	XI
ABSTRACT.....	XII
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background Of The Study.....	1
1.2 Background Of The Organizations.....	2
1.3 Statement Of The Problem.....	4
1.4 Research Questions.....	6
1.5. Objective Of The Study.....	6
1.5.1. General Objective.....	6
1.6. Research Hypotheses.....	6
1.7. Significance Of The Study.....	8
1.8. Scope And Time Of The Study.....	9
1.9. Limitation Of The Study.....	9
1.10. Organization Of The Study.....	9
CHAPTER TWO: - LITERATURE REVIEW.....	10
2.1 THEORETICAL LITERATURE REVIEW.....	10
2.1.1 Definition Of Auditing.....	10
2.1.2 Definition And Roles Of Internal Audit.....	11
2.1.3 Theories Of Internal Audit.....	14
2.1.4 Internal Audit In The Budgetary Public Sector.....	17
2.1.6 Determinants Of Internal Audit Effectiveness.....	18
2.2 Empirical Literatures.....	24
2.3 Summary of The Literature Review.....	27
2.5 Conceptual Framework.....	29
Chapter Three: Research Methodology, Design And Method.....	30
3.1. Introduction.....	30

3.2 Research Methodology	30
3.3 Research Design.....	30
3.4 Research Methods	31
3.4.1 Data Sources And Collection Tool	31
3.4.3 Data Collection Method.....	32
3.4.4 Population Of The Study	32
3.4.5 Sampling Of The Study	32
3.4.6 Data Analysis Method	34
3.4.6.1 Qualitative Data Analysis	34
3.4.6.2 Quantitative Data Analysis	34
3.5 Reliability Test.....	35
3.6. Validity Test.....	35
3.7. Ethical Considerations	36
3.8 Relationship Between Specific Objectives, Research Hypothesis, And Data Sources	36
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION	37
4.1 Introduction.....	37
4.2 Econometric Data Analysis.....	37
4.2.1 Demographic Characteristics.....	37
4.2.2 Descriptive Statistics	41
4.2.3 Reliability Analysis	47
4.2.4 Assessment Of Ordinary Least Square (OLS) Assumptions.....	48
4.2.5 Regression Results For EIA	51
4.3 Discussion	54
4.3.1 Internal Audit Charter.....	54
4.3.2 Organizational Independence Of Internal Audit	55
4.3.3 Adequate And Competent IA Staff	56
4.3.4 Management Support.....	57
4.3.5 Quality Of Internal Audit	58
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS	60
5.1 Introduction.....	60
5.2 Summery Of Findings.....	60
5.3 Conclusion	61
5.4 Recommendations.....	62

REFERENCES	64
Appendix 1: Questionnaire For Internal Audit Department Staffs	73
Appendix 3: Questionnaire For Inspection Department Staffs & External Auditors	77
Appendix 3: Descriptive Statistics For Questionnaire Survey Of Inspection Department Staffs & External Auditors.....	81

List of Tables

Table 3.1 list of Budgetary Public Sectors offices.....	333
Table 3.2 Relationship between Specific Objectives, Research Hypothesis, and Data Source	366
Table 4.1 Educational Background of IAD Staffs	388
Table 4.2 Field of Study of IAD Staffs.....	39
Table 4.3 Years of Experience of IAD Staffs in FDRE ministers s	400
Table 4.4 Years of Experience of IAD Staffs in Internal Audit Department	400
Table 4.5 Descriptive Statistics of the Internal Audit Charter.....	411
Table 4.6 Descriptive Statistics of Organizational Independence of Internal Auditors	422
Table 4.7: Descriptive Statistics for Adequate and Competent of Internal Audit staff	433
Table 4.8 Descriptive Statistics of Management Support.....	444
Table 4.9 Descriptive Statistics of Quality of IA Work.....	454
Table 4.10 Descriptive Statistics of Effectiveness of Internal Audit.....	455
Table 4.11 Reliability Statistics	477
Table 4.12 Inter-Item Correlation Matrix	488
Table 4.13 Assessment of Normality.....	488
Table 4.14 Test of Heteroskedasticity	49
Table 4.15 Collinearity Statistics.....	500
Table 4.16 Pearson Correlation Matrix.....	501
Table 4.17 Durbin Watson Test Model Summary	512
Table 4.18 ANOVA ^a	523
Table 4.19 Regression Results Coefficients	534

List of Figures

Figure 2.1 Conceptual frame works.....	29
--	----

ABSTRACT

Internal Audit is the backbone of an organization as an internal control method. Where the effective IAD is, the organization is strong and effective in its activities. Internal audit has an essential role in helping a firm to achieve its objectives. The budgetary public sector entities are liable for the appropriate utilization of public resources. Despite the fact is the internal audit system implemented in FDRE ministers in Ethiopia since 1942; the attention given to its effectiveness is too low. Thus, the main purpose of this study is to identify the determinants of internal audit effectiveness in FDRE ministers in Ethiopia.. The study used explanatory research design and mixed research method. The research conducted on all (19) Executive organs. The quantitative method administered through adapted and constructed in 5-point Likert scale questionnaires and distributed to all FDRE executive organ's Internal Auditors. From the responses 77 efficient questionnaires, response taken and analyzed using state statistical software. The results of the analysis showed that the management Support and quality of audit work have statistically significant and positive relation with EIA; the organizational independence of internal auditors has statistically not significant and positive relation with EIA.

Keywords: *FDRE Ministries; effectiveness of internal audit; and internal auditors*

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In recent years, all over the world organizations growth and complexity become very multifaceted. So the more the organization gets expanded it became hard to manage by managers only. These events give to an Internal Audit (IA) a unique position. Internal auditing is a profession and an activity related to advising organizations regarding how to better achieve their objectives through managing risk and improving their internal control systems (Reynolds 2000). As increasing of complexity of companies, the need of internal audit increase. According to Cohen & Sayag, (2010), the objective of internal auditing is to improve the organizational effectiveness and efficiency through practical criticism. Effectiveness is acknowledged if it provides the required service expected from the function (Mihret and Yismaw, 2007; Arena and Azzon, 2009).

Reynolds (2000) refers Internal auditing (IA) as an important link in the business and financial reporting processes of every organization. More than ever demand of internal audit is crying out loud in many organizations. According to Cohen & Sayag, 2010, Internal auditing (IA) has become an indispensable control mechanism in both public and private organizations. A few decades back internal audit is operational in a few companies. And, the internal audit department is assumed as a department of unknown tasks just for giving a little help to accountants. With changing times, the concept of internal auditing has undergone significant changes with regard to its definition, scope of coverage and approach (Tackie et. al.2016).

According to Mihret and Yismaw, 2007: Internal audit got a lot of attention because of it is one way of internal control-risk management system; serves as an important internal assurance in the businesses financial reporting process. Thus Internal audit systems are important to helping public managers to achieve results by making government's more efficient and effective in its service providing for citizens' (Sterck & Bouckaert, 2006). To provide effective service, internal audit functions need to have a favorable organizational setting, internal audit quality, management support and suitable audit attributes (Mihret and Yismaw, 2007). Arena and Azzone (2009) also noted that internal audit effectiveness is a

function of resources, and competency of the internal audit team, process and activity and organizational link of the function.

In almost all Ethiopian government agencies and public sector organizations have a demand for effective internal audit department (IAD). When the internal audit department is strong and effective, the accountability and good governance in the sector become increase. To have effective and efficient internal audit department the internal auditors who are the key employees of public offices are expected to work independently and objectively. According to Van Peurseem (2005), Belay (2007); to enhance quality of public services, to implement internal control system, to avoid corruption, to ensure good corporate governance system, to promote accountability and greater transparency the effectiveness of internal audit department is unquestionable.

1.2 Background of the Organizations

FDRE ministries, the focus of this research, are part of the public body which owned by a government and financed mainly from the government budget. These sectors provide basic public services for the benefit of all the society and encourage equal opportunity to every nation in the land, such as education, health care, public securities and so on (Mihret & Yismaw, 2007; MoFED, 2004).

In 2015 the organizations, powers and duties of the Executive Organs (Ministries) of the Federal Democratic Republic of Ethiopia were redefined and become twenty five in number as per proclamation No. 916/2015. However, after three years, it has been found necessary to redefine the organizations, powers and duties of the Executive Organs. Thus the Federal executive organs redefine and down in number to nineteen according to Proclamation No.1097/2018, to have the proper exercise of the constitutional powers and duties of the Government of the Federal Democratic Republic of Ethiopia. These government organizations are essential for the success, sustainability and institutionalization of the reform underway to reach a growth strategy plan of Ethiopia.

To achieve the government objectives', applying internal audit function is a major mechanism for controlling and using of all scarce resources available in the organization. So to pursue and achieve the objective of an organization, the operation of the internal audit process, competencies and techniques need to be molded in order to bring success to the organization by improving the internal audit effectiveness (Arena and Azzone, 2009).

According to Proclamation No. 982/2016 of Ethiopia, the objective of the office of the Federal Auditor in General (OFAG) is to make efforts: in cooperation with concerned other organs; to promote and strengthen accounting and audit profession; to give professional assistance and advice to Regional and Federal Offices and organizations engaged in accounting and audit professions and also to draw up a standard of auditing.

The audit proclamation and directives issued by the Ethiopian government on establishment of OFAG in 1942 and it renewed and re-established time to time in mainly focused on the public sectors' utilization. Unfortunately, till these days the public resources are still flowing to individual pockets in different methods. There are lots of fraudulent activities in the public sectors due to weak internal control systems and measures (Csazer, 2000). Even if internal audit has become a crucial function within organizations, academic researchers ignore it and they tended to focus on external audit as an organizational control function (Gendron & Bedard, 2006). According to Cohen and Sayag, (2010), the IA effectiveness is an important concept, but it got a less attention and rarely examined in the scientific literatures.

An organization can achieve its objectives if it ensured by the effectiveness of its employees. Therefore, internal auditors who are the main focus of this study are the key employees of public offices. So having the internal audit department which staffs have an awareness of the department's objective and why it needed in that specific office may help a lot to fully participate and being a game changer for the organizations. In other words, if there are qualified and enlightened internal audit department staffs available in the organization; the organizational performance improved automatically (Mastan et al., 2015).

1.3 Statement of the problem

This study was designed to identify the main factors that determine the effectiveness of IA in the executive organs. Genuine internal audit demand is crying out loud in every organization more than ever. Since the internal auditors are actually employed by the auditee offices; the ability to plan, execute and communicate audit findings are the most suitable dimensions to evaluate effectiveness of internal audit (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007).

Now a days the effectiveness of internal audit getting so much attention. Research on internal audit conducted in different countries around the world. For instance: Wahid Abbu-Azza (2012), 'Perceived Effectiveness of the Internal Audit Function in Libya'; Drogalas George, Karagiorgos Theofanis and Arampatzis Konstantinos (2015), 'Factors associated with Internal Audit Effectiveness: Evidence from Greece'; Aaron Cohen & Gabriel Sayag(2010), 'The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations'; Rainer Lenz(Corresponding author) Gerrit Sarens (2012), 'Internal Auditing Effectiveness: Multiple Case Study Research in Germany That Hardens Role Theory and the Relational Theory of Coordination'; Adhista Cahya Mustika (2015), 'Factors Affecting the Internal Audit Effectiveness' from Indonesia; Jusbair Baheri, Sudarmanto and Ismail Suardi Wekke (2017), the Effect of Management Support to Effectiveness of Internal Audit for Public Universities and so more.

Almost all prior studies in the effectiveness of internal audit in ethiopia were focused on single; selected organizations from one business sector; or mixed from different kind of organizations. Such as: in a single public sector or with a mix of public enterprise and private company (Mihret & Yismaw, 2007; Mihret, 2010; Shewamene, 2014; Abraham, 2015; Fetu, 2016; Wondwossen, 2016; Alemzewed 2018; Arefayne 2018). Among these limited researches conducted;

Mihret (2010) research was focused in selected Ethiopian Government ministries, State-owned enterprises, and private companies; Mihiret & Yismaw (2007), 'Internal audit effectiveness: an Ethiopian public sector case study'; Shewamene (2014) 'Determinants of Internal Audit Effectiveness in the Public Sector, Case Study in Selected Ethiopian Public Sectors Offices'; Abraham (2015), 'Determinants of Internal Audit Effectiveness Emperical Study on the Construction & Business Bank'; Tadiwos (2016), 'Factors Determining

effectiveness of Internal Audit in Ethiopian Commercial Banks’; Wondimagegn (2016), ‘Determinants of Internal Auditor's Effectiveness in the public Sector, Case Study in Selected Ethiopian Health Sector Offices’; Hawa Aliyi (2016), ‘Factors that Identify the Effectiveness of Internal Audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Offices’; Alemzewed (2018) ‘Determinants of Internal Audit Effectiveness in Ethiopia: In the Case of Selected Budgetary Public Sectors’; Arefayne (2018) ‘Factors Affecting Internal Audit Effectiveness in the Case of All Ethiopian Insurance Companies’.

There is no generally acknowledged guide or tool to identify the effectiveness of internal audit (Arena & Azzone 2009). From the reviewed researches, the prior researchers who tried to investigate the IA effectiveness shared some factors. However the effectiveness studies and their results varied in accordance with the organization’s settings and audit systems in the respective countries.

Researchers in Ethiopia and also several academic studies abroad, such as (Al-Twaijry et al., 2003; Arena & Azzone, 2009; Cohen and Sayage, 2010; Goodwin, 2004; Mihret & Yismaw, 2007; Mihret, 2010; Shewamene, 2014; Tadiwos, 2016) have encouraged further research and the need for more wide-ranging study and on different setting of the issue of IA effectiveness.

Especially in a developing country like Ethiopia, which put massive amounts of budget for infrastructures in order to put its country to the level of prosperous and suitable for citizens; the need for effective internal audit is unquestionable. Therefore the researcher is attempting to identify what factors determines the effectiveness of internal audit in the all FDRE ministries.

Thus, this study differs from Alemzewed’s and all prior studies because the research is conducted on all populations of FDRE ministers. The participants in this research are all internal auditors with all minister offices. The study used variables that matter in the specific area of research. Therefore the researcher examines the relationship of internal audit charter existence, organizational independence, adequate and competent internal audit staff, management support and quality of audit work with the EIA. The outcomes of this research are useful to maintain effective IAD in ministeries and also it will fill the gaps in the literature.

1.4 Research Questions

The research has proposed to answer the following research questions;

- ✓ Does the existence of internal audit charter have an effect to the EIA?
- ✓ Does organizational independence of internal auditors affects EIA?
- ✓ Does the adequate and competent internal audit staff has effects on EIA?
- ✓ Does the management support to internal auditors improve the EIA?
- ✓ Does the quality of audit work have an effect on the EIA?

1.5. Objective of the Study

1.5.1. General Objective

The general objective of the study is to identify determinants of Internal Audit effectiveness in FDRE ministers.

1.5.2. Specific Objectives

The specific objective of this study, which the researcher tried to achieve is;

1. To examine the contribution of the internal audit charter existent in the effectiveness of internal audit in FDRE ministers.
2. To measure the organizational independence of internal auditors in the effectiveness of internal audit in FDRE ministers.
3. To evaluate the adequate and competent internal audit staff in the effectiveness of internal audit in FDRE ministers.
4. To assess the contribution of management support to internal auditors for the effectiveness of internal audit in FDRE ministers.
5. To examine the quality of audit work for the effectiveness of internal audit in FDRE ministers.

1.6. Research Hypotheses

After reviewing the related literatures the researcher tried to design the following hypotheses for this study.

H1: Internal audit charter is positively related to the effectiveness of internal audit.

O'Regan (2002), IIA (2001), and Van Peurse (2005) argued that IA charter is a well drafted formal written document that clearly stated the activities, purpose, authority and responsibility of internal auditor. The existence of this document assures the IA staffs to understand their departmental objective and their rights. It also influences senior management to follow the recommendations of the internal auditor to in order to perform value adding and effective internal audit work in the organization.

H2: Organizational independence of IA is positively related to the effectiveness of internal audit.

Abbu-Azza, (2012) and Belay, (2007) shared the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and to be free from any influence that comes from the management whilst performing audit activities and issuing audit reports by internal auditors. And also Goodwin & Yeo (2001), explained organizational independence as the relationship between the internal audit activity and the audit committee. When the IAD is independent from any influence so the staff members too. Independence to this aspect is meant by that independence in mind as well as independence in appearances (Stewart & Subramaniam, 2010). Therefore, this independence lets the IAD to be effective in its activity in the organization.

H3: Adequate and competent IA staff is positively related with the effectiveness of internal audit.

According to Al-Twaijry et al, (2004) and Burnaby, et al., (2009) argued the IAD team has to have capabilities as necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate and to improve organizational and departmental performance that adds value. As per Engle (1999), when an organization has competent IA staff; it has benefits such as the staff become effective and contribute to the achievement of organizational goals, the IA findings become accurate so the time and cost of external auditing become decrease and the last but not the least without the external auditing the state of the organization under audit are in an ideal position to provide information about financial statements.

H4: Management support to the IA is positively related to the effectiveness of internal audit.

The management support is the most crucial element for the effectiveness of IA as Walker, Shenkir, & Barton (2002), Gortiz (2004) and Cohen & Sayag, (2010). Starting from hiring skillful IA staff, facilitating on-job training, adequate resources, budget and financial incentives, and giving attention and recognition as support when they give guidance they have primary responsibilities which related to risk identification and assessment and they are likely to be interacting with senior management on risk management implementation issues as Walker, Shenkir, & Barton (2002), Gortiz (2004) and Cohen & Sayag, (2010). Based on the literature reviewed there is no doubt that management support is an irreplaceable determinant of the effectiveness of internal audit.

H5: Quality of internal audit work is positively related to the EIA

An internal audit work is effective and useful when the reports and compliments delivered in time. According to Azad (1994), Santiso (2006) and Tandon et al. (2010), the IAD should have an audit program that can be supported by audit working papers. The time budgeting that has planned to work on time frame increase, the performance which is the timeliness of reports and the credibility of the audit findings. When the IA performed in a professional manner the outcomes become more accurate so define the state of the organization, accordingly the IA becomes effective.

1.7. Significance of the Study

This study is conducted to examine the effect of the internal audit charter, organizational independence, adequate and competent internal audit staff, management support and quality of audit work on the effectiveness of internal audit in FDRE ministers. This research's conclusions would contribute to managements it for reviewing the IA practice in relation with adding value in their organizations; it would help for MoF to enhance the effectiveness of internal audit in FDRE ministers and it also fills the gaps of literature on the effectiveness of IA for other researchers to conduct further study.

1.8. Scope and time of the Study

The scope study is to conduct in all FDRE ministers, which are located in Addis Ababa. In addition the researcher's intent of this study is to investigate the pre-selected determinants of the IA effectiveness; such as internal audit charter, organizational independence, adequate and competent internal audit staff, management support and quality of audit work in FDRE Ministeries. The study conducted for 9 month period of time; since May 2019 to Jan. 2020G.C.

1.9. Limitation of the Study

This research conducted by primary data from questionnaires therefore the results were based on the perceptions of the participants. The findings and the conclusions of this research are limited. It may not be fully applicable and generalize the effectiveness of Internal Audit in all types of organization and also in every country. Because the findings may give a different point of view in other settings. Despite the nature of the organization's settings and the laws of the land differs from one country to the other. Though the research may help compare and contrast the EIA.

1.10. Organization of the Study

This research paper has five chapters. The first chapter is the introduction, statement of the problem, research objectives, research questions, and research hypotheses, significant of conducting the study, the scope of the study and the limitation of the study. The second chapter describes the review of related literatures discussion of basic concepts, roles, theories of internal audit with conceptual framework which is the selected variable and gaps in previous literatures that may affect the internal audit effectiveness. The chapter three expresses the information regarding the research methodology, design and techniques to conduct the research. The fourth chapter has the analysis, discussions and presentation as part of the research findings and finally, the last chapter describes about the conclusions and recommendations of the study along with the references and appendixes.

CHAPTER TWO: - LITERATURE REVIEW

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

2.1 THEORETICAL LITERATURE REVIEW

2.1.1 Definition of Auditing

An audit of historical financial statement has been defined as: “a systematic process of obtaining and evaluating objective evidences regarding assertions about economic actions and events to find out the degree of correspondence between those assertions and established criteria, and communicating with interested parties with regard to the end results”. Lawrence (1988), defined audit as it is a form of evidence service in which the auditor issues a written report expressing his/her opinion about whether the financial statements are materially conformation with generally accepted accounting principles or other recognized criteria.

According to Arens, et al., (2012) Auditing can be classified based on the primary audit beneficiaries into two: and these are categorized as External Auditing and Internal Auditing. These two types of audits are performed by two different auditors - who are internal and external auditors. External auditors are those who are not working for the audited company, and they have been able to provide a report prepared on financial statements through checking whether that particular report is revealing the facts and fair view of the financial performance of the company or not. Such an auditor is called ‘independent’ or ‘external’ auditor. An external auditor may practice as a sole proprietor or as a member of an audit firm. External auditors are auditors who are doing audits of financial statements for publicly traded organizations; government, private companies, joint ventures, and other types of entities. It performed once, at the end of every fiscal year unless there are undefined circumstances that are occurring during that budget year.

Internal auditing can be expressed as independent and objective evaluation of the performances and finances of companies that are mostly operated by their own employees. Every piece of work will be done by a separate set of staff, which may or may not have professional expertise and qualifications in auditing. The main duty of an internal auditor is examining and giving useful opinion for managers to take corrections and advising for better management and financial activities in the specific organization. When an internal auditor found out in his/her auditing as there are financial irregularities, inaccuracies or other financial flawed that are caused by or if it is believed that due to the inefficiency of the management he/she has to report the fact. Internal auditors by providing their independent opinions and conclusions regarding the operation, function, system and wellbeing of the organization they can be helpful so as to prevent the bankruptcy/insolvency of that audited company. IA can facilitate information in order to give assurance for the healthiness of the company also they can give advice as well as consulting services.

In modern days the need for an internal auditor is utmost. Using internal auditors help to improve the existing procedures that are applicable and policies which are in practice in order to reduce costs and better services to users (Staciokas & Rupsys, 2005).

To create a strong corporate organization, IA plays a critical role in managing and operation of the organization (Changwony & Rotich, 2015). Also, prior to the external auditing is in process auditing that is supposed to be done by IA at the time of annual audit it helps not to consume the amount of time which may probably supposed to be spent by external auditors. Moreover, if there are cancellation of costs and other expenses that are in financial reports, and that is not considered in line with governmental laws having an internal auditor in the organization brings effectiveness to the company and lessens its financial irregularities. Besides, external auditors are likely to rely more on the internal auditor's report (Goodwin & Kent, 2006).

2.1.2 Definition and Roles of Internal Audit

The new definition of internal audit given by the Institute of Internal Auditors (IIA) is “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It promotes organizations to achieve their objectives by bringing a systematic and well-organized approach to assess and improve their effectiveness in control, risk management, and governance processes" (IIA, 2001).

Other researchers also share the concept that is put by IIA. Karapetrovic & Willborn, (2000), puts it as the definition of IA is taking into account organizational trends and it concentrates on a consultative approach within which an organization operates dealing with efficiency and effectiveness rather than accuracy of recording. "...Internal auditing can be defined as value addition to the organizations instead of being a mere administrative function or legal compliance that keeps organizations going. ..." (Flesher & Zanzig, 2000).

The broad nature of public sector governance necessitates an effective internal auditing function in order to meet the demanding responsibilities imposed by stakeholders. Internal audit can help to improve a process of governance by focusing on how values are established so that to ensure effective and efficient controlling and management of public sector entities. According to IIA (2006), the role of internal audit in governance is broadly identified to be dual. The first one is internal auditing provides independent and objective assessment on the suitability of the organization structure of governance, and the operating governance activities. The other one is, IA would act as catalysts for change, and they are advising or advocating as well as improving and enhancing the structure of governance and practices of the organization. The complexity of the public sector operating environment requires designing of internal audit structure, approach, practice and scope. All these also need to be reformed in order to ensure open, accountable and product decision-making with all public sector organizations (Asare, 2009).

In the ever changing business environment, internal auditing has a role by adding value to any viable organization. In addition to normal functioning of the internal checking system in the presence of internal auditing is highly essential in order to have accuracy, completeness, reliability and timeliness of accounting information. And these are can be tested and reported for helpful and corrective action.

Nagy & Cenker (2002) relates internal auditing with risk management, controlling processes, and the overall organizational operations. This is important as it embraces the expanding role of IA, which in recent years has evolved from an arrow focus on control to include risk management and corporate governance. Internal audit is the independent evaluation of activity within an organization that practices and defensive mechanism for the review of accounting, financial and other business practices as an arm of management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control (Tandon, Sudharsanam, & Sundharabahu, 2010). And also according to Baltaci &

Yilmaz (2006), the effort to reform a fiscal system should include internal control and audit and this is due to the crucial role they are playing in enhancing accountability and effectiveness.

The activity of IA would help an organization by evaluating the coming or unforeseen risks, whether they are or under controlled. Therefore, the work of IA is worthwhile. Risk management is an important task that should be considered by any public sector / private entity. Risk management brings effectiveness and efficiency in using available resources. The internal auditors' role in risk management involves in assessing and monitoring the risk that organization supposed to face. Their recommendation will be handy in order to come up with mitigating those risks and evaluating the trade-offs. It will also help the organization accomplish its strategic and operational objectives. Managing risk well requires careful consideration of the key concepts of minimizing loss, maximizing opportunities and preparing for the uncertainties (Sarens & De Beelde, 2006b).

Asare (2009) argued that, Moving towards risk-based internal audit will require having a prudence task of monitoring and advising on the improvement of program efficiency, effectiveness, and mitigating risks that hinder the achievement of organizational objectives. As a result, senior management and the board increased their reliance on the IA to improve their organization's operation and systematically to evaluate the management or organizational risks, so that to control as well as to enhance the processes of governance.

The internal auditing activity has become an essential part in accounting for applying mechanisms and tools so that to do public financial controls, monitoring and evaluating managerial activities. According to Gupta, (2001) these are essential factors in the achievement of objectives. It has the key role of reporting audited outcomes to the top management staff who are at senior managerial level in the public sector entities, especially regarding the control systems that are applied within the management and it also recommends about if there are needs for improvements where are supposed to be in practice.

However, according to Asare, (2009), if we take internal auditing as a control measure through the verification of procurement processes it doesn't only minimize the opportunities for corruption, but it also ensures effective physical monitoring so that to secure capital items as well as to avoid fraud by going through and utilizing the systems that are in place.

2.1.3 Theories of Internal Audit

Theory of internal audit defined by Gill & Johnson, (2002) as ‘it is a formulation concerns the cause and effect relationships between two or more variables, which may or may not have been tested’. A new approach which is adopted by Endaya & Hanefah, (2013) puts it as “a combination of three theories: which are agency, institutional, and communication theory.

A. Agency Theory

According to Adams (1994), Agency relationship can be explained as a contractual agreement which will be signed and become binding to accomplish any given piece of work between the organization owner(s) and its top management. Managers are in charge of managing and directing the overall activities of the organization on the behalf of its owners. However, their authority and power can be restricted up on the will of the owners unless they are fully authorized or commissioned.

The Agency theory deals and work together with other intervention mechanisms like financial reporting and external audit in an attempt to have a cost-effective organization by having a firm contract between owners and managers. There are two problems that agency theory addresses: the problems that are arising when the desires or goals of the principal and agent are in conflict, and when the principal is unable to verify what is really going on in the company. Obviously it is understandable that they do have different risk tolerances in their nature. Thus, the principal and agent according to the power which is vested in them, they do take different actions for different impediments. Therefore, it is unquestionable to deploy an independent body like internal auditors in order to control the whole activities of the organization and save the owners from any corrupt tendencies as well as the common theft (Peurseem & Pumphrey, 2005).

In these cases, internal audit report will be submitted directly to the principal/director/chief executive officer/general manager of the organization or to the board of directors. Internal auditing is used to minimize risks that are associated with finance and unforeseeable problems so as to save the organization as well as the stakeholders ‘of the company by controlling the dishonest activities and corrupt deeds of the top management. Internal auditors are the agents of the audit committee and the board of directors’ in order to evaluate the performance of officers who are at the top management. The effort of internal auditors

with such a quality would contribute a great deal of confidence to the board of directors and even the audit committee (Endaya & Hanefah, 2013). If internal auditors are incompetent, have money in securities or other different motives, he/she will act against the board of directors' interest and its audit committee.

The existence of an effective audit committee in the organization enhances the independence of internal auditors to do their job also to reduce the interfering activities of senior management staff either in internal audit scope or in its performance. During the evaluation, internal auditors should collect sufficient and reliable evidences that will support their assessment about the internal controlling system. Thus, "reports that are based on evidences have the power to increase the confidence level of the members of the organization and this is due to the good work which is performed by the internal audit" (Adams, 1994). Therefore, the performance of internal audit department is a crucial requirement for the members of any organization. Bearing in mind this, internal auditors would be considered as agents so that their support will be paramount and they are highly in demand.

B. Institutional Theory

Institutional theory gives details how organizational structures and practices are shaped through changes induced by normative pressures, including by the influence of external and internal sources such as the laws of the land, regulations and the like, or guidelines that are produced by the professionals who are good at this particular discipline (Zucker, 1987; Mihret et al., 2010). Institutional theory also explains about institutional pressure effects up on organizational structures and practices (Abbu-Azza, 2012). According to DiMaggio & Powell, (1983) there are three institutional pressures known as coercive, normative, and mimetic. Similarly, Arena & Azzone, (2007) have identified the institutional pressures that have an impact on individuals in part and the organization as a whole and these are clarified as laws and regulations (coercive isomorphism); choices of other organizations (mimetic isomorphism); and consultation or professional bodies (normative isomorphism).

Isomorphic processes can increase the efficiency of IA activities of an organization because being similar to other organizations can be taken as a parameter to check whether they are up to the standard in comparison with those who are rewarded due to their efficient product output and managerial capability to run the organization (DiMaggio & Powell, 1983). This similarity can make easier to transact with other organizations to attract carrier-minded staff,

to be acknowledged as legitimate and reputable, and to fit into an administrative eligibility (Abbu-Azza, 2012).

“Coercive isomorphism is a pressure which applied to establish Internal Audit Department” (Al-Twajjry, et al., 2003). “Institutional theorists consider organizations as members of an organized field, which comprises several organizations or industries that are interrelated in the same way. This interrelation leads organizations to influence others” (Mihret, et al., 2010). Arena & Azzone (2006), in their paper they indicate that ‘institutional theory provides a means of understanding the conforming and legitimating processes which affect the development of IA’.

Normative isomorphism is a pressure which is developed from increased proficiency within the organizations. It has a positive relationship with institutional changes due to the recognition of professionals within the organization (Abbu-Azza, 2012). There are two aspects of professionalization that are important for the sources of isomorphism (DiMaggio & Powell, 1983). The first one is the formal education which is provided by higher education professionals. In this regard, internal auditors must undertake courses about internal auditing in higher educational institutes. The other one is also attending training programs that are produced by professional institutions. Accordingly, there is a need for internal auditors to get qualification like those who are Certified Internal Auditors (CIA) or they have to be chartered auditors even within their own organization. Therefore, higher education and professional training institutions are important for the development of organizational departments like internal auditing.

Several studies show that internal audit have adopted an institutional theory (Abbu-Azza, 2012; Al -Twajjry et al. 2003; Arena & Azzone, 2007; Changwony & Rotich, 2015; Mihret et al. 2010). “Institutional theory is relevant to this study, according to the following reasons. Firstly, institutional theory includes IA practices which are part of organizational structures and it helps to discuss such organizational phenomena without a limited set of organizational goals” (Abbu-Azza, 2012). And secondly, Institutional theory supports countries which has an undeveloped equity market like Ethiopia” (Mihret et al. 2010). Therefore, this study draws attention at isomorphic processes of normative and coercive as it had been suggested by institutional theory so as to investigate the factors determining IA effectiveness.

C. Communication Theory

Both IIA Standards and previous studies reveal that, the study of effective communication in internal auditing is necessary, and hence this study should consider the communication theory for its achievement. Earlier studies have confirmed that in any organization IAD effective communication skill is so vital (Golen, 2008; Hahn, 2008). Inability to communicate effectively can lead to disseminated inappropriate information or makes communication more to be complex (Endaya & Hanefah, 2013). The effective communication of internal auditors can be explained through the existing effective communication between internal auditors and auditees, internal auditors and members of the organization, and within themselves, too (Endaya & Hanefah, 2013).

To avoid communication problems, Hahn (2008) recommends that parties of the communication process should focus on and offer only the required information through easy ways so as to provide the actual meaning to the information rather than just pass on the message, and keep the information clear and simple to make it understandable and finally ask for feedback. In this study, effective communication is one of the main factors for the effectiveness, which can be measured by examining the relationship with auditees.

2.1.4 Internal Audit in the FDRE minister

“The public sectors are governmental bodies and all publicly controlled and funded agencies, enterprises, and other entities that deliver public programs, goods, or services (Goodson et al. 2012)”. In the FDRE minister (excutive organs), internal audit function is one of an element of a strong public sector governance foundation. The function of an IA is highly important to have effective management. As the Institute of Internal Audit (2012) points out, ‘the IA function in the public sector has a great deal of significance and must be structured in a manner that ensures fulfilling of their accountability and transparency to the general public. At the same time, it allows them to be efficient in their given job. Thus, as a result of the IAs contribution to whichever the institution, it will be able to meet successfully its goals being cost-effective.

The diverse nature of the public sector places increasing importance and value on a common understanding of independence as it is factored to any auditor’s credibility. “The internal audit unit of the public sector must play an important role in ensuring transparency and

accountability of the public sector governance” (Goodson et al. 2012). The internal audit function can be organized and performed at various levels within an entity in a broader framework that covers a set of similar entities. The same principles and rules would apply to these different organizational levels of internal auditing.

One must keep in mind that those who are auditors working for the IA departments are integral part of public organizations. Therefore, credibility and independence, as well as their advisory role are becoming vital in avoiding potential conflicts of interest.

2.1.6 Determinants of Internal Audit Effectiveness

2.1.5.1 Internal Audit Charter

According to O’Regan (2002), "Internal Audit Charter is defined as an access to the information such as documents, records, systems, and personnel; necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect the ability to provide internal control assurance from a forward looking perspective”. And also IA charter defined by IIA (2001) as: “It is a formal written document that defines the activities, purpose, authority and responsibility of the auditor. The charter should define the scope of internal audit activities; establish the internal audit activity’s position within the organization and an access in records of personnel and physical properties relevant to the performance of managements”.

Different authors have been explained the presence of defined audit charter in organizations will help auditors to be effective. For instance, O’Regan (2002) concludes that “A well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required for internal control from an IA.” And also Van Peurseem (2005) added that “The presence of a strong internal audit charter enhances official and respected layer of authority to the position of IA in the company. It is also an important feature of ensuring success in achieving the independent status of an IA.” Furthermore, “the existence of audit charter in organization influences senior management to follow the recommendations of the internal auditor” (Van

Peurseem, 2005) which means having an IA charter in every organization helps organizations to be effective in their performances and service provisions.

2.1.5.2 Organizational Independence of Internal Audit

The concept of independence of internal audit refers to being free from any influence that comes from the management whilst performing audit activities and issuing audit reports by internal auditors (Belay, 2007; MoFED, 2004). There are a possible of two factors that are might influence the independence of IA. These are: the organizational independence of IA functions and the individual independence of internal auditors. Goodwin & Yeo (2001). “...Organizational independence can be explained as the relationship between the internal audit activity and the audit committee. Whereas, individual independence of internal auditors is all about individual staffs in IAD...” (Goodwin & Yeo, 2001).

As it is stated by Mihret et al, 2010, “Organizational setting includes the status of internal audit in the organizational structure. The structure can be clarified as integrity of internal audit offices in the organization, budgetary status of the internal audit office and the existence of sound and established criteria to evaluate auditees' practices. The existence of internal audit department in the organization is not an extra facility; it can be taken as one of the pillars. Absence of an audit department within the organization, it is believed that the organization may not be able to achieve its objectives and it can be assumed that it is not on the right track, because the audit department is the one which evaluates and examines finances as well as performances and gives feedback with useful information to the managers so as to make them able to pass their right decisions. Thus, for the effectiveness of internal audit department to be independence is a crucial.

Independence to this aspect meant by that independence in mind as well as independence in appearances (Stewart & Subramaniam, 2010). Similarly, Independence can be explained as follows according to Abbu-Azza, (2012)'s perspective: “The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent of that could bias his/her opinion.” To summarize it “...Independence is the core stone of IA effectiveness, because effectiveness of IA cannot be realized without the independence of IAD” (Vanasco, et al., 1996; Cohen & Sayag, 2010). Therefore, the position of IA in an organization is bound

with a corporate unit that should have a large degree of autonomy and independence in order to perform its activities in a proper manner (Arena & Azzone, 2009).

Auditors should be strictly independent from those who are required of them to do auditing, and they have to conduct their work without interference, and it is equally important for them to show their integrity and how they are genuine in doing their given job. Hence, effective internal auditors would be capable of conducting an independent evaluation of the financial and operating information systems and procedures with a view to provide fair and their honest recommendations that would be an input for improvements (Mihret & Yismaw, 2007).

For years and years in the past Auditor independence has been considered as a key driver of the audit role. Historically the emphasis has been put on independence as regards to external audit. The IIA Practice Advisory suggests that such independence can be gained by means of reporting to different levels that are in the hierarchy within the organization. This kind of reporting will allow the internal audit department to perform its responsibilities free of interference in order to avoid conflict of interests and the like. Having direct contact with the board and senior management with unrestricted access to records, employees and departments, and becoming free from direct control of executive management and as the same time not to have a fear of getting fired or appointed by the executive body of the organizations would help them to perform their given task appropriately.

2.1.5.3 Adequate and competent internal audit staff

Adequate staffing is essential for a system to be capable of doing the required activities as well as to meet its expectations. Facilitating with necessary equipment and organizing with a good and appropriate number of staff to an internal audit department and having a good management are keys to the effective operation of an internal audit. In the absence of competent staff no one can expect a good output from the internal audit department. The IA team requires a wide range of competencies to improve organizational and departmental performance that adds value to the organization (Burnaby, et al., 2009).

Professional competency is a sum of knowledge, skill, experience, and professional qualities; like those professional skeptics. The IIA's standard 1210 on the proficiency of the auditor stated that internal auditors should possess the knowledge, skill and other competencies that are needed to perform their responsibilities (IIA, 2001). The literature review specifically

conducted on the communication skills (Smith, 2005) clarifies that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is important to the potential advancement of internal auditors.

According to Engle (1999) the benefits of competent IA staff categorized into three; the first one is: the staff be able to conduct useful audits that effectively contribute to the achievement of organizational goals; Second, internal auditor's competence increase the probability that external auditors use the work of internal auditors which leading to a potential reduction in the cost of external audits; and the last one is, internal auditors who are familiar with the organization under audit are in an ideal position to provide information about financial statements.

To get all benefits mentioned in the above and to have an appropriate and competent staff of in the internal audit department, recruiting is the first step of it and giving on job training comes next. An audit requires a skilled professional staff that has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry et al, 2004). In addition to this, the critical dimension of auditing is the quality of its internal auditing staff that can be measured in terms of skill (Seol, Sarkis & Lefley, 2011; Leung & Cooper, 2009; Seol & Sarkism, 2006). In this juncture, weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004).

2.1.5.4 Management Support

Management support can be expressed as a facilitator to support the auditing process by fulfilling the necessary resources. Such as; finance, providing training, communication mechanism for introducing auditors with new technology, allocating budget funds for certification and other services that facilitate the internal auditing works (Shewamen, 2014).

According to Sarens & De Beelde (2006b), Internal Auditors require support and a positive perception towards them from their management to be more effective and to achieve the objectives of the audit. The top management of an organization can be considered as a customer for the internal audit department. As a result, will of the management to utilize audit recommendations by giving credit to their effort and support them is like using the service which is provided by the stakeholders so as to strengthen a given organization. This in

turn will encourage and gives willpower to the effectiveness of internal audit. This means it has to be the management to establish and/or maintain a strong internal audit department.

Financial support can be expressed in terms of providing an adequate budget to IAD and giving financial incentives (like bonuses and recompense) to the IA teams (Abbu-Azza, 2012). Gortiz (2004) argued that financial incentives through bonuses and recompense enhance the effectiveness of the IA team in their working environment. In addition to the aforementioned suppositions, "...such financial support has a positive influence on the independence of IA team ..."(Mizrahi & Ness-Weisman, 2007).

The management support is almost crucial to the overall operation of the organization and the internal audit too. According to Cohen & Sayag, (2010), "...the commitment to strength internal audit with adequate resources, budget, hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence of IA work are the results or decisions made by the top management".

Walker, Shenkir, & Barton (2002) stated that enterprise risk management may not succeed without strong support in the organization from senior management because internal auditors have primary responsibilities which related to risk identification and assessment and they are likely to be interacting with senior management on risk management implementation issues. Therefore, for effective work performance internal auditors should have the support of the top management and the board of directors. Management support to the internal audit department is also very essential so as to monitor risks that are associated with the management. According to these statements and based on the above literature, there is no doubt that top management support plays an important role in enhancing internal audit effectiveness.

2.1.5.5 Quality of Internal Audit work

One of the roles of internal audit is to identify the main weaknesses of the organization and also to provide recommendations as regard to the identified problems. That is why planning ahead about audit schedule and performing it well is the most required or must do acts of any auditor and in general as the whole staff of the audit department. 'Adequate planning is an essential element of auditing so as to do professional internal auditing (IA) in any viable organizations' (Arens, et al., 2012; Nagy & Cenker, 2002).

Planned internal auditing is one of the signs of IA's effectiveness. The internal audit departments should prepare an audit plan that identifies IA's objectives and strategies, and the audit work they intend to undertake. Mihret et al. (2010) stated that the work performance of the internal audit is further operationalized through having quality of the internal audit plan, execution of the work on a timely basis, and quality of internal audit reporting as well as by conducting routine follow-ups. Budgeting time and having a time frame of performance are also handy tools for evaluation of internal audit departments (Azad, 1994).

However, unlike an external auditing report, the report of internal audit is not limited or bound by time. Therefore, it doesn't need to do audit reports or submitting its results until the end of every fiscal year. Santiso (2006) states that, the timeliness of reports and the credibility of the audit findings are considered as an indicator of IA effectiveness.

To perform effective IA, the IAD should have an audit program. The audit programs can be supported by audit working papers (Tandon et al. 2010). Working papers are used in the field work stage of the audit process (Arens et al. 2012). Working papers can also be used to document evidence so as to make a report, to help with planning the audit plan, provide references and evaluate the overall IA activities.

The end products of any audit work culminate in the writing of an audit report. But unlike the external audit report; the internal audit report is not standardized yet it have a short-form in its content" (Kinfu & Bayou, 2009). Hence, internal audit report basically has to include: the whole aspects of its purpose and scope; description of tools and procedure, findings, suggestions and opinions, in addition to forwarded recommendations (Kinfu & Bayou, 2009). Furthermore, IIA state that, "the chief audit executive or audit director must prepare accurate audit reports which include significant risk exposures and control issues to senior management administratively and the board functionally..." (IIA, 2016).

In general terms, the interaction between internal and external auditors would contribute to the effectiveness of IA. In addition to that, if effective communication exists between internal and external auditors in, turn it will help to increase the total coverage of audit in a certain period of time and the work in an effective manner. Having interaction between the IAs and external auditors also can add value to the organization by reducing the amount of payment

of external audit service fees (Engle, 1999; Al-Twaijry, et al., 2004; Goodwin & Kent, 2006; Haron, et al., 2004; Felix, et al., 2001).

In addition to the above dimension of IA quality, ‘the competence of internal auditors can be measured in terms of academic level, experience and the efforts that they are putting for their continuous professional development so as to improve their career, and their compliance with audit standards and the like. Both the quantity of audit effort and the quality of professional care that are exercised will determine the overall quality of the internal audit work (Belay 2007; Cohen & Sayag, 2010; Leung and Cooper, 2009).

Therefore, quality of IA work has a significant relationship with the effectiveness of IA.

2.2 EMPIRICAL LITERATURES

Several researches were conducted on the current practices of internal auditing in the Ethiopian context. This section highlights some of the previous research papers on the effectiveness of internal audit. The researcher selects these studies among other researches in accordance with their studied areas and their time of study. The details are presented as follows:

Mihret and Yismaw (2007), in their research paper, “Internal audit effectiveness: an Ethiopian public sector case study”, intended to identify the factors impacting the effectiveness of internal audit services in large public sector higher educational Institutions. The study conducted by using a model developed in four factors: attributes of the auditee; organizational setting; management support and internal audit quality. The end result of the research underlined that internal audit effectiveness is strongly influenced by internal audit quality and management support, however, audit attributes and organizational setting don’t have an influence on internal audit effectiveness.

Shewamene (2014), in his research paper “Determinants of Internal Audit Effectiveness in the Public Sector in Ethiopia, Case Study” aimed to investigate the determinants of internal audit effectiveness in the selected Ethiopian public sector offices. The research conducted on 15 purposely selected public sector offices, distributing the questionnaire in a total of sixty respondents. The determining factors were management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor’s

staff and the presence of internal audit charter. The findings of the research were that the management support, the existence of adequate and competent IA staff, and the availability of IA charter were positive and statistically significant on internal audit effectiveness in the public sectors, but the management's perception and the organizational independent of internal auditors were positively related with the EIA though their contribution for the EIA were not statistically significant.

Abraham (2015), his research "Determinants of Internal Audit Effectiveness empirical Study on the Construction & Business Bank of Ethiopia", were intended to investigate the determinants of internal audit effectiveness and to show their influences on the effectiveness of internal audit activities in the Construction and Business Bank. The Sample size was 132 but the respondents who filled and returned the questionnaires were 120. The placement of adequate and competent internal audit staff, management support, organizational independence of internal auditors, management's perception of internal audit values, and the presence of internal audit charter were the variables of the research. The study uncovered that the management's perception, management support, the existence of adequate and competent IA staff and also the organizational independence positively affect the internal audit effectiveness in the Construction and Business Bank. Yet, the presence of internal audit charter is found that it has no effect on the effectiveness of internal audit effectiveness in the bank.

Tadiwos (2016), conducted research on "Factors Determining the effectiveness of Internal Audit in Ethiopian Commercial Banks" was to identify the factors determining the effectiveness of internal audit in Ethiopian commercial banks. Internal auditors' those are in head office of 17 CBs' information has been incorporated in the study. The research used self-administered questionnaires & interviews. Therefore, 244 questionnaires were distributed to head office internal auditors of ECBs. The factors to identify the effectiveness of IA were: independence of internal audit, the competence of the internal audit team, management supports and Quality of Internal Audit. According to the results of the study; the competence of the internal audit team, independence of internal audit, and management supports were strong and statistically significant effect on the effectiveness of internal audit and were the factors determining the effectiveness of internal audit in Ethiopian commercial banks. Whereas, quality of IA result were its impact on the effectiveness of IA is insignificant in commercial banks in Ethiopia.

Wondimagegn (2016), a research on “Determinants of Internal Auditor's Effectiveness in the Public Sector, Case Study in Selected Ethiopian Health Sector Offices”. The purpose of the research was to investigate on the determinants of internal audit effectiveness. Investigating challenging factors that have influenced the Ethiopian health sectors was through questionnaires. The predetermined factors were organizational independence of internal auditors, adequate and competent internal auditor’s staff, management perception, management support and the presence of internal audit charter with the internal audit effectiveness. The study was done focused on 5 purposely selected health sector offices. The researcher selects twenty five respondents, including five senior managers who use the audit result. The outcome of the research was: management perception, the existence of adequate and competent IA staff, and the availability of IA charter were contributed to the internal audit effectiveness in the health sector significant and affects positively. The management support was positive but not statistically significant to the effectiveness of IA on the other hand the organizational independent of internal auditors was negatively related with the EIA.

Alemzewed (2019), in research paper “Determinants of Internal Audit Effectiveness in Ethiopia: The Case of Selected Budgetary Public Sectors”. The research aimed to identify determinants of Internal Audit effectiveness in selected budgetary public sectors in Ethiopia. The research conducted on 17 purposely selected budgetary public sector offices. The total questionnaires collected from respondents were 85. The determining factors were internal auditors’ competence, internal auditor’s independence, internal audit quality and management supports. The end result of the research highlighted that internal audit effectiveness is strongly influenced by internal auditors’ competence, internal auditor’s independence. However, management support and internal audit quality were not statistically significant but positively related to the effectiveness of internal audit.

Arefayne (2019), a research on “Factors Affecting Internal Audit Effectiveness: The Case Of Ethiopian Insurance Companies”. The research aimed to examine the factors affecting internal audit effectiveness in Ethiopian insurance companies. The study was conducted on all internal auditors of Ethiopian insurance companies. There were 55 internal audit staffs in 16 insurance companies. The factors to examine the effectiveness of internal audit in insurance companies were Internal Auditor competence, Internal Auditor's independence, Quality of IA work and Management support. The researcher used questionnaires and document review for data collection. The outcomes of study revealed that the Internal

Auditor competence affects the internal audit effectiveness in Ethiopian insurance companies. However, it is also found that the Quality of IA work, Management support and Internal Auditor's independence have a positive relationship, but not statistically significant in the effectiveness of internal audit in insurance companies in Ethiopia.

2.3 SUMMARY OF THE LITERATURE REVIEW

This literature review would argue that there are five potential determinants that are related with the effectiveness of IA. These determinants are can be described as internal audit charter, adequate and competence of IA staff, independence of IA, quality of IA work, and the need for management support. The researcher supposes most experts who have knowledge of IA would believe that Effective IA can add value to the business and it enhances the department and organizational performance.

Consequently, the following summary provides details of the research method in respect of the identified research problem.

In the current dynamic global market, the presence of effectiveness of internal audit is so vital and necessary. As a consequence of this it attracts the attention of many researchers. Different authors have considered different determinants for the IA effectiveness. Some of the factors that are not reviewed in this paper are management perception, career advancement, the relation between internal and external auditors, and attributes of audit are can be mentioned (Cohen & Sayag, 2010; George 2015; Shewamen 2014).

In this paper, internal audit charter, organizational independence, adequacy and competency of internal auditors, management support and quality of internal audit work are briefly explained how they would affect the output of the audit. As it had been discussed in the previous sections, these determinants influence the likelihood of detecting and self-reporting fraud within the organization. This research is there to reveal the determinants of internal audit effectiveness in budgetary public offices based on the internal audit charter, organizational independence, adequacy and competency of internal auditors, management support and quality of internal audit.

In general, as a producer of this paper the researcher is eager to find out what determinants are really matters in the area of Internal Audit (IA). The researcher must say that there are no

written or specific standards, methods or tools to evaluate the effectiveness of internal audit. Hence, previous researches have provided diverse findings on IA effectiveness, and have assessed taking into consideration different determinants of IA effectiveness.

To sum up with, the researcher would like to say that this paper is focused on showing the need for relationship between key factors and internal audit effectiveness in all budgetary public sectors in federal level that are operational in the land.

2.4 RESEARCH GAP

According to the review of this particular literature the researcher would suggest to all who have an interest in this discipline to look at the following gaps that found in this literature:

- ❖ In order to prepare this thesis the researcher went through reading numerous academic papers that are available in the public domain. Yet all of previous researches were limited to and adhered to the existing and the old formation of FDRE ministries. Thus, I could say and I believe that there is no research which is conducted and carried out on the revised settings of sectors on the shelves.
- ❖ Undeniably, there is very little research which is carried out concerning the role of Internal Auditor's and their effectiveness. Therefore, it is my opinion that it is crucial doing and have a wide range study as regard to the effectiveness of IA.
- ❖ In the past decades limited studies have been conducted on the subject of IA effectiveness in Ethiopia and as a result of this some researchers are advocating for the need to do further research which can be more comprehensive and trustworthy on this particular issue.
- ❖ There are limited researches that are conducted regarding ministry offices. Especially there is only one paper which focused on selected Ethiopian budgetary public sectors. The current research investigates that the determinants of internal audit effectiveness in selected budgetary public sector offices are mainly based on Internal Auditors Competence, Internal Auditors Independence, Internal Audit Quality and Management Support.

2.5 CONCEPTUAL FRAMEWORK

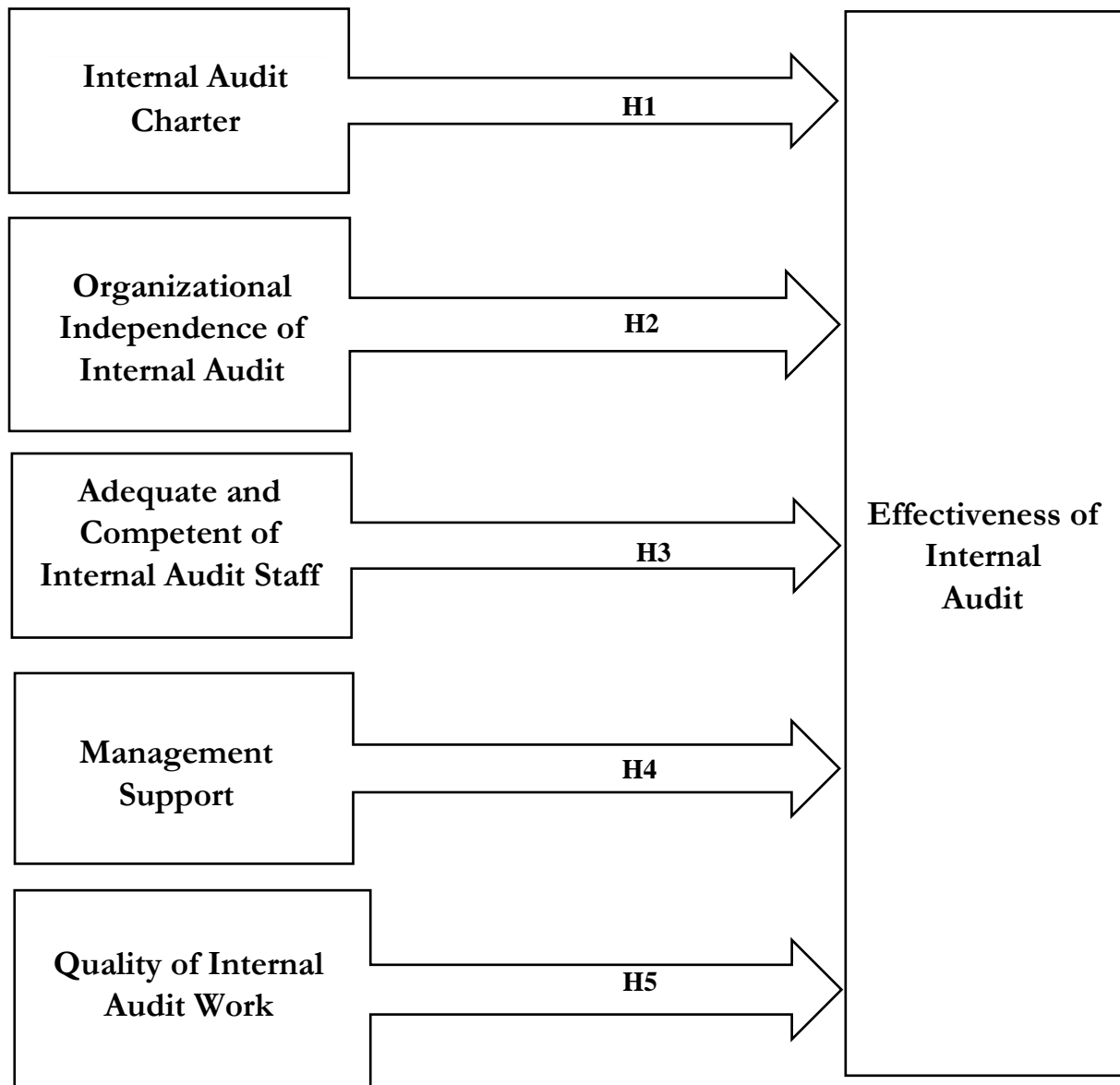


Figure 2.1 Conceptual frame works

Source: Compiled by researcher from the literature review

CHAPTER THREE: RESEARCH METHODOLOGY, DESIGN AND METHOD

3.1. Introduction

Research design is an important part to develop an effective research. When the design is effective it help to show the logical link between the data collected, the analysis and conclusions to be drawn. In this section, the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, and finally the model specifications that used for data analysis in the study are included.

3.2 Research Methodology

The researcher used mixed research methodology because it has many advantages. Some of the major advantages, why the researcher chooses to use this method in the research are: First, it is useful in understanding contradictions between quantitative results and qualitative findings that means the response to questionnaires may or may not be the actual circumstances happening on the ground. Therefore, using another method of collection needed. Second, Mixed method has a flexible and more adaptable to any study designs, such as observational studies and randomized trials, to uncover more information than it can be obtained in only quantitative or qualitative research. So the researcher believed it was useful for this particular research. Third, it helps to reflect a participants' point of view. Hence the researcher can identify and reveal truth behind the numbers or words.

3.3 Research Design

This study focused on identifying factors determine the effectiveness of Internal Audit in FDRE ministers s in Ethiopia. The researcher's intention is to explain which factors determine the IA effectiveness through examining the relationship between dependent and independent variables. The research used explanatory studies because it tried to show the causal relationship between variables. The data used to conduct this study was the primary data obtained through the questionnaires. The questionnaires were prepared for internal auditors and external auditors/MoF inspection team. Questionnaires distributed to all the internal audit department staffs in all FDRE ministry. Therefore, the study used a

combination of quantitative and qualitative methods. Thus, studying the data in quantitative method through statistical tests such as correlation and regression in order to get, the clearer view of the relationship explained in detail with reasons through qualitative data. And explanatory research was used to discuss the outcomes of the study.

3.4 Research Methods

3.4.1 Data Sources and Collection Tool

The researcher used a primary data source for this study, and the questionnaire is used as a data collection tool. Since the target population for this study is all internal auditors in FDRE ministry, the questionnaires distribute to their IAD staffs.

The questionnaires are adopted and modified from the prior author and literature review; however, the researcher modifies the questions to make it directly related to the research hypotheses, objective of the study and to make it easily understandable for the respondents. It conducted to identify the determinants for the IA effectiveness of with regard to internal audit charter; adequate and competence of IA team, organizational independence of IA, management support and quality of IA.

The questionnaires are prepared in the form of Likert-Scale type to show respondent's agreement or disagreement. So it constructs in five point scale where the lowest scale represents strongly disagree and the highest scale represent strongly agree. The questionnaires prepared in two different types to get useful feedback in according to their profession and responsibility. One for internal audit department staffs and the other is to external auditors on executive organs and audit inspection staffs in the MoF. The questionnaire was prepared only in English language by considering the respondents literacy.

Each questionnaire is organized into two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the effectiveness of IA and its determinants. The samples of the questionnaires are attached in the appendix 1&2.

3.4.3 Data Collection Method

There are three ways of administering self-administered questionnaire including face to face, telephone, and mail (Marczyk, et al., 2005). Using a self-administered questionnaire has various advantages. For instance: it allows participants to think more about the questions; it is a low cost option and it is a best way of rapid data collection technique (Cooper & Schindler, 2006). Thus the researcher used a face to face method to administer the questionnaire because according to Marczyk et al. (2005), the return rate and objectivity in filling a questionnaire is high when it's the face-to-face method used.

3.4.4 Population of the Study

The main focus and population of this study is internal auditors in all FDRE ministers. Currently, in Ethiopia there are nineteen FDRE ministry. Therefore the internal audit staff in these sector offices; audit inspection team members of MoF and external auditors are the population of this study. The audit inspection team members of MoF and the external auditor are included as a population because the researcher believed and expected that they have adequate knowledge of internal audit practice in those executive organs. Thus, their response was helpful for data triangulation purpose. Creswell (2009), agreeing define the population is the first step in designing the sample, the study chooses to take all populations in this particular research. Because of prior researchers conduct their research in a sample, if anything missed back then the researcher would like to identify it now.

3.4.5 Sampling of the Study

The study conducted on the determinants that affecting the effectiveness of internal audit in the whole FDRE ministers. For meaningful analysis, there is no need to sample from 95 internal audit staffs in 19 FDRE ministers. As the information gathered from the MoF, the members of IA staff in the executive organs are not equal. Therefore the questioners distributed according to the size of their departments. However the total number of internal auditors to be participates in this research are **95** from the nineteen FDRE ministers. In addition to that **10** questionnaires distributed to inspection department staffs of MoF and **5** questionnaires to external auditors. In total, of **110** questionnaires were distributed to make analysis regarding the effectiveness of IA in the FDRE ministers. The questionnaires distributed to participants in FDRE ministers were, according to Table 3:1.

No.	FDRE ministers	No. of Questionnaires
1	The Ministry of Agriculture	5
2	The Ministry of Culture and Tourism	4
3	The Ministry of Education	5
4	The Ministry of Finance	7
5	The Ministry of Foreign Affairs	4
6	The Ministry of Health	7
7	The Ministry of Innovation and Technology	4
8	The Ministry of Labor and Social Affairs	4
9	The Ministry of Mines and Petroleum	4
10	The Ministry of National Defense	6
11	The Ministry of Peace	4
12	The Ministry of Revenue	7
13	The Ministry of Science and Higher Education	5
14	The Ministry of Trade and Industry	4
15	The Ministry of Transport	5
16	The Ministry of Urban Development and Construction	5
17	The Ministry of Water, Irrigation and Energy	7
18	The Ministry of Women's, Children and Youth	4
19	The Ministry of Justice/ The Attorney General	4
	Total	95

Summary		
No.	Total Number of Questionnaires	
1	For Internal Auditors	95
2	For Inspection team of MoF	10
3	For External Auditors	5
	Total Number of Questionnaires distributed	110

Table 3.1 list of FDRE ministers

3.4.6 Data Analysis Method

According to Yin (2003), Data analysis is all about examining, categorizing, tabulating, and recombining the data collected, to address the initial objective of a study; thus the data analyzed in a quantitative method of 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 FDRE ministers.

3.4.6.1 Qualitative Data Analysis

The researcher used observations to collect information, knowledge and opinions. According to Denzin & Lincoln (2005), qualitative research implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured. For the quality of this research outcome the researcher observes to gain extra related to the research objective.

3.4.6.2 Quantitative Data Analysis

In this study, the researcher analyzed the quantitative data by using STATA software. According to the survey instrument selected which is Likert-scale questionnaire model, the researcher used ordinal (ranked) type of categorical data. Most of the independent variables included in the model are extensively used in prior audit researchers (Mihret and Yismaw, 2007; Cohen & Sayag, 2010) and added the internal audit charter.

The following regression analysis model is formulated to be used in this research in order to test the research hypotheses drawn to identify the factors determining effectiveness IA.

$$EIA = \beta_1 + \beta_2 IAC + \beta_3 OIIA + \beta_4 ACIAS + \beta_5 MS + \beta_6 QIA + e$$

Where: EIA = Effectiveness of Internal Audit in FDRE ministers

β_1 = Constant term

β_2 to β_6 = the coefficients of independent variables

IAC = Internal Audit Charter

OIIA = Organizational Independence of IA

ACIAS = Adequate and Competent IA Staff

MS = Management Support

QIA = Quality of IA

e = error term

3.5 Reliability Test

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

3.6. Validity Test

In order to establish the validity of the study instrument the researcher reviewed prior researches and professional literatures extensively as it showed in the second chapter of this research. The intension of the review was to find a causal relationship between the independent and dependent variables of the study. Consideration of latest professional standards in adapting the instruments is another attempt to enhance the validity of items in the instruments (Mihret, 2010). Therefore, the researcher is able to develop a theoretical framework reflecting what is perceived to be effective IA and the researcher used synchronized data triangulation strategy which suit for the study.

3.7. Ethical Considerations

In order to get permission and also to increase the confidence of the respondents the researcher asked a recommendation letter from Addis Ababa University, College of Business and Economics, Department of Accounting and Finance to the organizations and/or individuals. The letter explained why their participation needed and the confidentiality of their response. In addition, to lift the respondent confidence the researcher mention not to write their name on the questionnaires. Furthermore participation was voluntary therefore the questionnaires distributed only to volunteer respondents of internal auditors in FDRE ministers s.

3.8 Relationship between Specific Objectives, Research Hypothesis, and Data Sources

Sources

Specific Objectives Research	Hypothesis	Data sources
To examine the existence of internal audit charter to the effectiveness of IA in FDRE ministers	1	Survey Question No. 1-4 of Internal Auditors AND Survey Question No.1-4 of Inspection Department Staff & External Auditors
To investigate the internal auditor's independence to the effectiveness of IA in FDRE ministers	2	Survey Question No. 5-9 of Internal Auditors AND Survey Question No.5-9 of Inspection Department Staff & External Auditors
To investigate the internal auditor's Adequacy and competency to the effectiveness of IA in FDRE ministers	3	Survey Question No. 10-14 of Internal Auditors AND Survey Question No.10-14 of Inspection Department Staff & External Auditors
To examine the management support for the effectiveness of IA in FDRE ministers	4	Survey Question No. 15-19 of Internal Auditors AND Survey Question No.15-18 of Inspection Department Staff & External Auditors
To measure the internal audit work quality to the effectiveness of IA in FDRE ministers	5	Survey Question No. 20-25 of Internal Auditors AND Survey Question No.19-24 of Inspection Department Staff & External Auditors

Table 3.2 Relationship between Specific Objectives, Research Hypothesis, and Data Source

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The research attempted to identify the factors determining the effectiveness of IA in FDRE ministers s. In this chapter the results of the study are presented with data triangulating of the different source results. The chapter contains two main sections. The first section deals about the analysis of econometric results which collected through questionnaire from IAD staffs. The second section deals about the results and interpretation of quantitative and qualitative results which is collected through questionnaire and data triangulation. Therefore, this chapter presents the analysis and discussion of the research findings from primary and secondary sources.

4.2 Econometric Data Analysis

In this section the results of econometric data analysis are presented. This chapter starts in questionnaires that were distributed for a unit of analysis purpose in excutive organs' IA department staffs response rate, demographic characteristics and then demonstration of reliability analysis for data collected using a questionnaire is presented. At last tests of normality distributions and inter- item correlations are reported. For a unit of analysis purpose 95 questionnaires were distributed to 19 FDRE ministers s IA department staffs. Out of 95 questionnaires 81% of it that 77 questionnaires have been collected; and all 77 questionnaires were usable for analysis.

4.2.1 Demographic Characteristics

Demographic characteristics of the respondents to this regard their educational background (indicated their highest level of education), certifications, field of study, and working experience in a FDRE ministers and also specifically in IAD.

According to their response, 9.1% of the respondents obtained a post graduate degree or masters and above as their highest level of education, 87% of the respondents obtained a bachelor degree as their highest educational level. The remaining 3.9 % respondents obtained

diploma as their highest level of academic qualification. This result is consistent with prior IA standards (IIA, 2011) and those studies of (Al-Twaijry, et al., 2003; Mihret, et al., 2010; Abu-Azza, 2012; George, et al., 2015; Tadiwos, 2016). In terms of professional certifications, IA teams of executive organs have only 2.6% sufficient certified personnel. Professional certifications have great quality in regard of adding value, and enhance department and organizational performance (Bou-Read & Capitano, 1999). According to the participants' response, executive organs lack sufficient certified personnel with regard to their number. In addition, it is difficult to be effective without professionally qualified staff (Cohen & Sayag, 2010; Abu-Azza, 2012).

Table 4.1 Educational Background of IAD Staffs

	Frequency	Percent	Cumulative Percent
Diploma	3	3.90	3.90
Degree	67	87.01	90.91
Masters	7	9.09	100.00
Total	77	100.00	

Source: Field Survey, 2019

According to the field of study, the participants of the study indicate their field of study. In this regard 61 respondents (79.22%) have Accounting and Finance educational background; 9 respondents (11.69%) have management educational background; 4 respondents (5.19%) have an educational background of Economics and the remaining 3 (3.9%) respondents hold Business Education, Public Finance Management, Accounting & Information System educational background. Descriptive statistics of the data are presented in table 4.2. Most IA teams have educational background in "Accounting and Finance". This shows that IA activity in the executive organs has focused on financial operational areas. According to Paape (2007), IA team, including most "Accounting and Finance" educational background staffs could lack skills, experience, and knowledge in other fields such detail audit profession. At this point of view, the scope of IA in those executive organs had not expanded to non-financial operation areas.

Table 4.2 Field of Study of IAD Staffs

Field of Study	Freq.	Percent	Cum.
Accounting and Finance	61	79.22	79.22
Economics	4	5.19	84.42
Management	9	11.69	96.10
Others	3	3.90	100.00
Total	77	100.00	

Source: Field Survey, 2019

Respondents working experiences in FDRE ministers s ranged from Two years and less up to above Ten years. Twenty three respondents (29.87%) have above Ten years working experience in a budgetary public sector, 24 respondents (21.172%) have above Five years less than Ten years working experience in a budgetary public sector, 17 respondents (22.08%) have above Two years less than Five years working experience in a budgetary public sector, and 13 participants (16.88%) have Two years and less working experience in a budgetary public sector. This shows that respondents have a good work experience in a budgetary public sector as the majority of the respondents that is 47 participants (61.04%) have a working experience five years and above budgetary public sectors. Descriptive statistics of the data are presented in table 4.3.

Based on the participants' response to internal auditors in FDRE ministers have a good years of experience in FDRE ministerin different positions and fields. It shows that auditors have a reasonable knowhow on the FDRE ministeractivities due to this they could have the ability to investigate, audit and add value to the FDRE ministeror departments specifically. This finding is not supported by prior studies of (Mihret, et al., 2010; Abu-Azza, 2012). But it is in line with (George, et al., 2015; Wubishet & Dereje, 2014; Tadiwos, 2016) studies which deals about having adequate and experienced auditors in their study area.

Table 4.3 Years of Experience of IAD Staffs in FDRE ministers

Years of Exp. in the sector	Freq.	Percent	Cum.
2 Years and Less	13	16.88	16.88
Above 2 Years Less than 5 Years	17	22.08	38.96
Above 5 Years Less than 10 Years	24	31.17	70.13
Above 10 Years	23	29.87	100.00
Total	77	100.00	

Source: Field Survey, 2019

According to the respondents' respond, working experiences in IAD ranged from Two years and less up to above Ten years. Twelve respondents (15.58%) have above Ten years working experience in IAD, 23 respondents (29.87%) have above Five years less than Ten years working experience in IAD, 24 respondents (31.17%) have above Two years less than Five years working experience in IAD, and 18 participants (23.38%) have Two years and less working experience in IAD. This shows that respondents have a satisfactory work experience in IAD as 325 participants (45.45%) have a working experience between Five years and above Ten years in IAD of FDRE ministers. Descriptive statistics of the data are presented in table 4.4. The response indicated that internal auditors in FDRE ministers have satisfactory levels of experience in the area of internal auditing. It shows that relatively low turnover of employees in the IAD of FDRE ministers. This finding also is not supported by prior studies of (Mihret, et al., 2010; Abu-Azza, 2012). But it is in line with (George, et al., 2015; Wubishet & Dereje, 2014; Tadiwos, 2016) studies which deals about having adequate and experienced auditors in their study area.

Table 4.4 Years of Experience of IAD Staffs in Internal Audit Department

Years of Exp. In IAD	Freq.	Percent	Cum.
2 Years and Less	18	23.38	23.38
Above 2 Years Less than 5 Years	24	31.17	54.55
Above 5 Years Less than 10 Years	23	29.87	84.42
Above 10 Years	12	15.58	100.00
Total	77	100.00	

Source: Field Survey, 2019

4.2.2 Descriptive Statistics

The response on Internal Audit Charter related to the respondent internal audit practice has shown the mean value of greater than 3.00 for all related questions. This implies that participants agreed on existence and awareness of Internal Audit charter in FDRE ministers s.

The standard deviations were less than 1.00. It shows that the respondents' perception were not far from one another. See table 4.5

Table 4.5 Descriptive Statistics of the Internal Audit Charter

Questions	Obs.	Mean	Std. Dev.	Min	Max
1. An internal audit charter is maintained in my sector.	77	4.259	.864	1	5
2. The purpose and authority of internal audit is clearly defined in the charter.	77	4.194	.874	1	5
3. The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors	77	4.025	.810	1	5
4. The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities.	77 77	3.870	.816	1	5

Source: Field Survey, 2019

The response of the questionnaire which examines the independence of IAs had a mean value greater than 3.00. The standard deviation for Q5 was greater than 1.00. It indicates that the respondents' perception were far from to one another. But the standard deviation of Q6, Q7, Q8 and Q9 was less than 1.00. It indicates that the respondents' perception near from one another. The data are presented in table 4.6.

Table 4.6 Descriptive Statistics of Organizational Independence of Internal Auditors

Questions	Obs.	Mean	Std. Dev.	Min	Max
5. Internal audit provides reports to the Minister and/or audit committee.	77	4.272	1.0341	1	5
6. Internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from any one.	77	3.818	.983	1	5
7. Internal auditors have unrestricted (full) access to all departments and employees documents in the sector	77	3.649	.956	1	5
8. Internal audit participate in the development of the sector processes.	77	3.467	.867	1	5
9. Internal audit perform the auditing activities without any interference and influence from any officials and the offices.	77	3.545	.994	1	5

Source: Field Survey, 2019

The response of the questionnaire which examines adequacy and competence of IA staff for all questions from 10 up to 14 had a mean value of greater than 3.00. This implies that participants were agreed on the adequacy and competent of IA staff of the budgetary public body. The standard deviation of Q13 and Q14 were greater than 1.00. It indicates that the respondents' perception were far from one another. But, the standard deviation for Q10, Q11 and Q12 was less than 1.00. It indicates that the respondents' perception were close to one another. The data are presented in table 4.7.

Table 4.7: Descriptive Statistics for Adequate and Competent of Internal Audit staff

Item	N	Mean	Std. Dev.	Min	Max
10. In your department internal auditors have adequate educational background.	77	3.896	.852	1	5
11. In your sectors audit department has improved in terms of appropriately qualified or professional staff	77	3.792	.783	1	5
12. Internal auditors have a deep professional knowledge on the overall activities of the department.	77	3.545	.803	1	5
13. Number of staff in the internal audit department is good and appropriate for the sector's internal audit operation.	77	3.194	1.088	1	5
14. Internal auditors undertake continuous professional development trainings or attend educational seminars.	77	3.168	1.018	1	5

Source: Field Survey, 2019

The response of the questionnaire which examines management supports for all questions no. from 15 to 19 had a mean value of greater than 3.00. This implies that participants were agreed with the management support in FDRE ministers s. The standard deviations of Q16, Q17, Q18 and Q19 were greater than 1.00. It indicates that the respondents' perceptions were varied each other. In another way, the standard deviations for Q15 was less than 1.00 which indicates that the responses among respondents were close to each other. The data are presented in table 4.8.

The response of the questionnaire which examines management supports for all questions no. from 10 up to 14 had a mean response greater than 3.00. This implies that participants were agreed on the adequacy and competent of IA staff of the budgetary public body. The standard deviation of Q13 and Q14 were greater than 1.00. It indicates that the respondents' perception were far from one another. But, the standard deviation for Q10, Q11 and Q12 was less than 1.00. It indicates that the respondents' perception were close to one another. The data are presented in table 4.8.

Table 4.8 Descriptive Statistics of Management Support

Questions	Obs	Mean	Std. Dev.	Min	Max
15. Senior management supports internal audit personnel and aware of internal audit needs.	77	3.311	.976	1	5
16. Management encourages internal audit department by implementing recommendations and promote value-added activities to strength internal audit function.	77	3.194	1.000	1	5
17. The internal audit department is large enough to efficiently carry out its duties.	77	3.467	1.142	1	5
18. Top management of FDRE ministers demands implementation of corrective actions recommended by external auditors	77	3.454	1.007	1	5
19. The internal audit department gets the necessary resources that help to perform auditing activities as needed.	77	3.558	1.019	1	5

Source: Field Survey, 2019

The mean value on the all responses on the quality of IA work had greater than 3.00. This implies that participants agreed on the quality of IA work in FDRE ministers s. The standard deviations of (Q₂₃ and Q₂₄) were greater than 1.00. It indicates that the respondents' perception were far from one another. But the standard deviation of Q₂₀, Q₂₁, Q₂₂ and Q₂₅ were less than 1.00. It indicates that the respondents' perceptions were close each other. The data are presented in table 4.9.

Table 4.9 Descriptive Statistics of Quality of IA Work

Questions	Obs.	Mean	Std. Dev.	Min	Max
20. Internal audit has an audit plan and efficiently performed according to the plan.	77	4.272	.868	1	5
21. Internal audit findings are correctly argued and justified and its reports are accurate.	77	4.233	.742	1	5
22. Internal audit recommendations can be easily implemented.	77	3.779	.868	1	5
23. Effective communication established between internal and external auditors.	77	3.623	1.181	1	5
24. External auditors use internal audit working papers and reports in conducting their audit.	77	3.870	1.018	1	5
25. Established internal audit objectives were accomplished.	77	3.805	.874	1	5

Source: Field Survey, 2019

The final question of the questionnaire (Q₂₆) which examines the effectiveness of IA had a mean response less than 3.00. This implies that participants were agreed on the effectiveness of IA in executive organs. The standard deviation of the question was less than 1.00. It indicates that the respondents' perception alike, each other. The data are presented in table 4.10.

Table 4.10 Descriptive Statistics of Effectiveness of Internal Audit

Questions	Obs.	Mean	Std. Dev.	Min	Max
26. The internal audit function of your public sector is effective.	77	3.753	.975	1	5

Source: Field Survey, 2019

Other findings from the last open suggestion part of the questionnaire

Some participants respond the last question offering their own statement on related or other issues.

Some participants write about the auditee should have to enlighten about the rights, tasks and procedures of internal auditors because long time trends become legal rights. These situations make hard to work properly with management and other parties.

Reporting findings and recommendations to make corrections will be more fruitful if the follow-up team implemented in the internal audit department. Without the continuous follow-up the internal audit department wastes it's time to on correcting the same mistake over and over.

Some participants state that the number of internal auditors in their sector are not large enough to perform internal audit effectively. It's hard to do clear and well organized auditing while the staff is less in number than the job needed.

Most of the internal auditors has the same level of knowledge for long times. IA staffs equipped with latest information about and should helped to improve their proficiency by educational seminaries and on job trainings.

The tasks they are performing in the IAD is not what their specific specialization. Performance auditors are working in financial audit section because the performance audit is not implemented in their sector. That makes them to feel like the outsider in the department.

4.2.3 Reliability Analysis

In a Likert-scale questionnaire measuring the consistency or reliability of the questionnaire is essential. Reliability analysis has been employed in prior IA researches those adopt a Likert - scale questionnaire (Mihret, et al., 2010; George, et al., 2015; Tadiwos, 2016). To measure such a reliability analysis Cronbach's Alpha (α) is the most common measure of reliability scale. For reliability analysis value (α) greater than 0.600 is acceptable (Cronbach's, 1951). According to Field, (2009) a reliability analysis whose value (α) is greater than 0.700 it is very acceptable. Based on Table 4.11 the reliability analysis values for Cronbach's Alpha (α) of this study show that 0.6425 for all six variables. Therefore, the responses generated from all variables in this study were very acceptable (reliable) for data analysis.

Table 4.11 Reliability Statistics

No. of Items	Cronbach's Alpha (α)	Cronbach's Alpha (α) Based on Standardized Items
6	0.6425	0.6415

Source: Field Survey, 2019

Inter- item correlations were also examined to assess reliability of the study. According to Table 4.12 few of the variables in the study show more than 0.30. This indicates that sufficient and adequate correlations were among item responses (Hair, Anderson, Tatham, & Black, 1998; DeVellis, 2003).

Table 4.12 Inter-Item Correlation Matrix

	IA Charter	Organizational Independence of IA	Adequate and Competent of IA staff	Management Support	Quality of IA	Effectiveness of IA
IA Charter	1.0000					
Organizational Independence of IA	0.2728	1.0000				
Adequate and Competent of IA staff	0.0745	0.4105	1.0000			
Management Support	0.2167	0.2779	0.2726	1.0000		
Quality of IA	0.3342	0.0899	0.0847	0.3701	1.0000	
Effectiveness of IA	0.0176	0.2298	0.0946	0.5106	0.3946	1.0000

Source: Field Survey, 2019

4.2.4 Assessment of Ordinary Least Square (OLS) Assumptions

4.2.4.1 Assessment of Normality

In order to test the normality of the data, Skewness and Kurtosis test of normality distribution were used and conducted on Stata 14.2. The Skewness and Kurtosis tests are showing normality when the result is within the range of +1 and -1 (Hair, et al., 1998). The result of normality distribution is presented below in Table 4.13. According to the table, the result of the normality distribution test shows that Skewness and Kurtosis were between the range of +1 and -1. Therefore, it indicates that the data were normal and reliable for analysis.

Table 4.13 Assessment of Normality

	Obs	Skewness	Kurtosis
IA Charter	77	-.711	2.807
Organizational Independence of IA	77	-.262	2.652
Adequate and Competent of IA staff	77	-.923	5.749
Management Support	77	-.543	2.672
Quality of IA	77	-.836	2.910
Effectiveness of IA	77	-.860	2.752

Source: Field Survey, 2019

4.2.4.2. Assessment of Heteroskedasticity

For the regression output of the model Breusch-Pagan/Cook-Weisberg test for Heteroskedasticity was conducted on Stata 14.2 to test for homogeneity of variance and a P value of greater than 0.05 is acceptable. As the result revealed in table 4.14 below, p value (0.056) for the model is greater than 0.05 the critical value, which shows homogeneity of variance across the model.

Table 4.14 Test of Heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for Heteroskedasticity
Ho: Constant variance
Variables: fitted values of Effectiveness of Internal Audit
chi2(1) = 4.05
Prob > chi2 = 0.056

Source: Field Survey, 2019

4.2.4.3 Assessment of Multicollinearity

Multicollinearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other (Hair, et al., 1998). It means when the strong correlation among predictors and the existence of r value greater than 0.80, tolerance value below 0.10, and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009). Tolerance in this case defined as a statistical tool which used to indicate the variability of the specified independent variables from other independent variables in the model (Pallant, 2007). Based on Table 4.15, the tolerance levels for all variables are greater than 0.10 and the Variance Inflation Factor (VIF) value of all variables were less than 10.

According to Table 4.16 which show the correlation between dependent and independent variables, the correlation matrix of all variables among the predictor was also less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicate that there were no Multicollinearity problem in this study. In the relationship between dependent variable (effectiveness of IA) and independent variables (IA charter, organization's independence of IA, adequate and competent of IA staff, management support and quality of IA work).

The correlation analysis is used to accept or reject the research hypothesis in addition of regression analysis (Mihret, et al., 2010; Cohen & Sayag, 2010; Arena & Azzone, 2009). In the relationship between a dependent variable (effectiveness of IA) and independent variables (competence of IA team, independence of IA, quality of IA, and management support) some variables are significant.

Table 4.15 Collinearity Statistics

Model	Tolerance (1/VIF)	VIF
IA Charter	0.827	1.21
Organizational Independence of IA	0.757	1.32
Adequate and Competent of IA staff	0.766	1.31
Management Support	0.752	1.32
Quality of IA	0.756	1.32

Source: Field Survey, 2019

Table 4.16 Pearson Correlation Matrix

		IA Charter	Organizational Independence of IA	Adequate and Competent of IA staff	Management Support	Quality of IA	Effectiveness of IA
IA Charter	Pearson Correlation	1.0000					
	Obs	77					
Organizational Independence of IA	Pearson Correlation	0.2728	1.0000				
	Obs	77	77				
Adequate and Competent of IA staff	Pearson Correlation	0.0745	0.4105	1.0000			
	Obs	77	77	77			
Management Support	Pearson Correlation	0.2167	0.2779	0.2726	1.0000		
	Obs	77	77	77	77		
Quality of IA	Pearson Correlation	0.3342	0.0899	0.0847	0.3701	1.0000	
	Obs	77	77	77	77	77	
Effectiveness of IA	Pearson Correlation	0.0176	0.2298	0.0946	0.5106	0.3946	1.0000
	Obs	77	77	77	77	77	77

Source: Field Survey, 2019

4.2.4.4 Assessment of Autocorrelation

If there are patterns in the residuals from a model, then they can be considered as auto correlated (Brooks, 2008). The Durbin-Watson (DW) is a test of first order auto correlation (Field, 2009). The Durbin-Watson statistic ranges valued from 0 to 4. A value near to 2 indicates non auto-correlation; a value toward to 0 indicates positive auto-correlation and a value toward to 4 indicates negative auto-correlation. In this type of test, the null hypothesis can't be rejected when DW result is near 2 (Hair, et al., 1998), because, it shows there is little or no evidence of autocorrelation. Based on Table 4.17 the Durbin-Watson (DW) statistics value of this study is near 2 that is 1.789. Therefore, there is no evidence of autocorrelation among the error terms in this study.

Table 4.17 Durbin Watson Test Model Summary

Model	R Square	Adjusted R Square	Durbin-Watson
1	0.374a	0.330	1.789

Source: Field Survey, 2019

a. Predictors: (Constant), IA Charter, Organizational Independence of IA, Adequate and Competent of IA staff, Management Support and Quality of IA

4.2.5 Regression Results for EIA

“The classical linear regression model (CLRM) is the standard procedure for analyzing dependencies between variables that are measured on a metric scale” (Thompson, 2002). In the course of model estimation, it is common practice to evaluate the appropriateness of a single descriptive model for the problem under study with the help of the coefficient determination, R^2 in empirical studies, the most important benefit of R^2 is that it serves as a fast and easily interpretable measure for the goodness of fit of the estimated model (Reisinger, 1997).

However, R^2 is not an absolute indicator of goodness of fit. It is just a relative measure of explained variance in relation to the total variance in the dependent variable (Mayer, 1975; Reisinger, 1997; Nau, 2007; Thompson, 2002).

Some authors, particularly in social science largely reject the use of the coefficient of determination (Reisinger, 1997; Thompson, 2002). Further, Cross-sectional studies achieved

lesser than time-series studies (Reisinger, 1997). Thus, the best value for R-square depends on what the researcher measured. This study depends on a participant's perception which is collected through a questionnaire. Therefore, R-squared value more than 25% can be respectable and good to fit (Reisinger, 1997; Thompson, 2002).

The regression result explores the necessary indicators of IA effectiveness using the variables identified in the model (Hair, et al., 1998). Based on Table 4.17 the appropriate indicators of the variables used to show the effectiveness of IA are listed. It means the overall contribution of IA charter, Adequate and competence of IA teams, independent of IA, management support and quality of IA work to the effectiveness of IA accounted for 37.4% (0.374) of the variation in the effectiveness of IA which is almost equal to the literature referred.

Based on Table 4.18, the ANOVA shows the significance of the model by the value of F-statistics (P=.000) and F=8.47 which indicates there are a relationship between the predictors and the outcomes of the regression variables.

Table 4.18 ANOVA^a

Regression	Summary of Squares	Df	Mean Squares	F	Sig.
Model	72.017	5	5.403	8.47	.000 ^b
Residual	101.597	71	.638		
Total	135.294	76			

Source: Field Survey, 2019

a. Dependent Variable: Effectiveness of IA

b. Predictors: (Constant), IA Charter, Organizational Independence of IA, Adequate and Competent of IA staff, Management Support and Quality of IA

The regression results coefficient of beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent variable (Field, 2009). Based on Table 4.19 beta sign for two independent variables shows negative (-). Thus, independent variables (IA charter and adequate & competent of IA staff) had a negative effect on predicting the dependent variable (effectiveness of IA). Therefore, any decreases in independent variables lead to decrease dependent variable. The other remaining independent variables, namely; organizational Independence of IA, management support and quality of IA had positive (+) effect on the dependent variable. Consequently, any increase in independent

variables leads to increase independent variable. This result is consistent with prior IA studies (Al- Twaijry, et al., 2004; Arena & Azzone, 2009; Cohen & Sayag, 2010; Mihret & Yismaw, 2007; Ramachandran, et al., 2012; Wubishet & Dereje, 2014; Tadiwos, 2016).

The independent variable with the level of significance (sig.) value less than 5% can make a significant contribution to the predicted value of the dependent variable, whereas, a variable beyond this level of significance (sig.) cannot make a significant contribution to the predicted value of the dependent variable (Brooks, 2008; Hair, et al., 1998). Based on Table 4.19 the statistical significance of the independent variable over the dependent variable at 5% level of significance; IA charter, management support and quality of IA were significantly contributed for the dependent variable (effectiveness of IA). But the independent variables (Organizational Independence of IA and Adequate and Competent of IA staff) were not significantly contributed to the dependent variable (effectiveness of IA).

Table 4.19 Regression Results Coefficients

Model	Beta	Std. Error	T	Sig.
(Constant)	.961	.935	-1.03	0.31
IA Charter	-.389	.158	-2.46	0.02
Organizational Independence of IA	.272	.168	1.62	0.11
Adequate and Competent of IA staff	-.081	.190	-0.43	0.67
Management Support	.546	.142	3.84	0.00
Quality of IA	.455	.161	2.83	0.01

Source: Field Survey, 2019

4.3 Discussion

This section presents the results of quantitative and qualitative data analysis. The hypothesis tested to assess a significant influence of independent variables on the dependent variable. The independent variables: IA Charter, organizational Independence of IA, adequate and Competent of IA staff, management Support and quality tested to measure if it has significant influence on the effectiveness of IA in the FDRE executive organs. According to Table 4.19 the p- value of IA Charter, management support and quality of IA was statistically significant at ($P < 0.05$) which shows a strong support for hypothesis 1, 4 and 5 respectively . Whereas, the p-value for organizational Independence of IA and adequate & competent of IA staff were statistically not significant at ($P < 0.05$) which shows a weak support for hypothesis 2 & 3. In general this section addressed the research hypotheses underlying this study. As it is mentioned in analysis section, the data collected from the questionnaire were analyzed. In order to demonstrate research findings within this study, the researcher were used data triangulation which refers to the use of independent sources at the same data techniques. The main objective of this triangulation is to examine the perception of external auditors and MoF IA inspectors towards the factors that affect the effectiveness of the internal audit functions. For this purpose 12 questionnaires are successfully collected and incorporated the result in the next section. In this section, the argument of views of participants presented in regarding to each and every independent variables.

4.3.1 Internal audit charter

The first hypothesis proposed in this research was internal audit charter is positively related of the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, internal audit charter is statistically significant determinant of internal auditor effectiveness. Regard to this, the study examined the it in the perspective of its existence, clearly define the purpose and authority of internal auditors and mentioned the scope of IA activities.

H1: Internal audit charter is positively related to the effectiveness of internal audit.

The internal audit charter is a formal document that defines internal audit purpose, authority, responsibility and position within an organization (IIA, 2016). A researcher by the name of O. Regan (2002) concluded that a well drafted Audit Charter is an important ingredient for internal audit effectiveness. He added that it helps to direct the efforts of audit staff and lays

out what is expected by the board in order for internal audit to provide the expected assurance. Van Peurse (2005) also added in his research that the presence of a strong audit charter adds an official and respected layer of authority to the position of internal audit in the company.

How ever the result of this study shows that there was a negative relation between internal audit charter and the effectiveness of IA in FDRE ministries and statistically significant at a level of both ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was -0.389 and the t-value of 0.02.

The responses of inspection staff and external auditors to the questions on an internal audit charter were characterized by most respondents agreed compared to those who disagreed. Numerically mean value was 3.958 and standard deviation was 0.760. This implies that participants were agreed on the existence of internal audit charter in FDRE ministries. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another. Some number of audit staff has no idea of the presence of the audit charter therefore its use cannot be fully enforced. However, a few inspectors and external auditors who answered the questionnaires were able to know the importance and strength of an audit charter. The result of this study is consistent with the previous studies (Shewamen, 2014; Wondimagegn, 2016; Fetu, 2016) but inconsistent with previous studies (Abraham, 2015). Descriptive statistics of the data is presented in Appendix3.

4.3.2 Organizational Independence of Internal Audit

The second hypothesis proposed in this research was organizational independence is positively related of the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, organizational independence of IA is not statistically significant determinant of internal auditor effectiveness. Regard to this, the study examined the independence of IA in the perspective of existence of effective audit committee, individual internal auditors' independence, and organizational independence of IA function.

H 2: Organizational Independence of IA is positively related with the EIA

The result shows that there was a positive relation between the independence of IA team and the effectiveness of IA in FDRE ministries and statistically not significant at ($P < 0.05$). The

magnitude (β) of the effect of this variable on the effectiveness of IA was 0.272 and the t-value of 0.11.

Inspection teams and external auditors were asked various questions through a questionnaire to examine the IA independence in the FDRE ministers. The results showed that a mean value was 3.417 and standard deviation was 0.536. This implies that participants were agreed on the independence of IA in FDRE ministers. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were far from one another. The responses show that overall the respondents felt that IA has no enough independence to conduct audit functions in the selected FDRE ministers. Descriptive statistics of the data are presented in Appendix 3.

Therefore, the researcher accepts the hypothesis of the study that is "Independence of IA is positively related to the effectiveness of IA in public sectors" as the result reveals that the independence of IA had a positive impact on the effectiveness of IA and statistically not significant. It means the existence of an effective audit committee, individual IA independence, and organizational independence of IA had a significant effect on the effectiveness of IA in public sectors. The result is consistent with the previous studies (Shewamene, 2014; Fetu, 2016; Wondwossen, 2016; Wondimagegn, 2016) but it is inconsistent with previous studies (George, et al., 2015; Goodwin-Stewart, 2001; Stewart & Subramaniam, 2010; Tadiwos, 2016).

4.3.3 Adequate and competent IA staff

The third hypothesis proposed in this research was adequate and competent IA staff is positively related of the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, adequate and competent IA staff is not statistically significant determinant of internal auditor effectiveness. Regard to this, the study examined the adequate educational background, proficiency, experience, adequacy of number of staffs and proffessil training and educational seminaries.

H 3: Adequate and competent IA staff is positively related with the EIA

The result shows that there was a negative relation between adequate and competent of IA staff and the effectiveness of IA in FDRE ministries, and statistically not significant at a level

of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was -0.81 and the t-value of 0.43.

The results of the questionnaires' collected from certified in auditing. In this regard a mean value of 3.417 and standard deviation of 0. Inspectors and external auditors showed that there is lack of certification by audit staff in a number of FDRE ministers' offices as a number of respondents' answered that they are not accounted. Additionally, some participants respond the last question offering their own statement on related or other issues some participants' state that number of internal auditors in their sector are not large enough to perform internal audit effectively. It's hard to do clear and well organized auditing while the staff is less in number than the job needed. This implies that participants were agreed on the competency of IA in the executive organs. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were not close to one another. Descriptive statistics of the data are presented in Appendix 3.

Currently as per Table 4.1 the MoF hired an internal auditor almost with a minimum requirement of bachelor degree; which is 87 %, regarding field of study. As per Table 4.2, 79% of the IA are in business and finance field and as per Table 4.4, 77% of audit staffs have an experience in the area of audit for above two years.

Therefore, the researcher rejects the hypothesis of the study that is "Adequate and competent IA staff is positively related with the effectiveness of internal audit" as a result shows that competence of IA teams had a negative effect on the effectiveness of IA but statistically not significant. It means the proficiency of internal auditors, experience of internal auditors, effective communication with audittee and training and development had no significant effect on the effectiveness of IA in FDRE ministers. The result is consistent with the previous studies (Wondwossen, 2016) but inconsistent with previous studies (Arena & Azzone, 2009; George, et al., 2015; Mihret, 2010; Ramachandran, et al., 2012; Wubishet & Dereje, 2014; Tadiwos, 2016).

4.3.4 Management Support

The fourth hypothesis proposed in this research was management support is positively related with the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, management support is statistically significant determinant of internal

auditor effectiveness. According to SPPIA of 1110- stated that internal auditors should get a support from top management and cooperation from auditee to perform their work effectively (IIA, 2011).

H4: Management support to the IA is positively related with the EIA

The result shows that there was a positive relation between management support and the effectiveness of IA in FDRE ministers s and also statistically significant at a level of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.546 and the t-value of 3.84. In regards to this, the questionnaire results were collected from inspection teams and external auditor.

The respondent's answers to the questionnaires as regards management support showed that most of them felt that there was favorable management support towards internal audit. The results showed mean values of 3.625 and standard deviation of 0.608. This implies that participants were agreed with the management support for IA in FDRE ministers. Descriptive statistics of the data are presented in Appendix 3.

Therefore, the researcher accepts the hypothesis of the study that management support is positively associated with the effectiveness of IA in FDRE executive organs as the result indicates that management supports play a critical role in the effectiveness of IA and statistically significant. It means the senior management (top management) awareness on IA needs, demands implementation of corrective actions recommended by external auditors and supports internal audit personnel were a significant effect on the effectiveness of IA in FDRE ministers. Additionally the researcher believed that IA staffs can be more effective if they were assigned in their specific specialization and improve their proficiency by on-job trainings educational seminaries.

The result is consistent with previous researches (Gortiz, 2004; Mihret & Yismaw, 2007; Cohen & Sayag, 2010; George, et al., 2015; Tadiwos, 2016, Shewamene, 2016; Wondimagegn, 2016).

4.3.5 Quality of Internal Audit

IA quality is effective audit planning, reporting findings, giving recommendations; follow-up of IA recommendations; and effective communication with external auditors had a relatively

significant effect on the effectiveness of IA in FDRE ministres. According to Mihret & Yismaw, (2007); Mihret A.G., (2011), IA quality can be expressed as it is an internal auditors office and field work capability to do their duty to provide useful findings and recommendations. The fifth and last hypothesis proposed in this research was quality of internal audit work is positively related of the effectiveness of internal audit.

H5: Quality of internal audit work is positively related with the EIA

The result shows that there was a positive relation between quality of IA work and the effectiveness of IA in FDRE ministers s and also statistically significant at a level of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.455 and the t-value of 2.83.

In supporting of this, the questionnaire results which are collected from inspection teams and external auditors' shows a mean value of 3.778 and standard deviation of 0.410. This implies that participants were agreed on the quality of IA work in the excutive organs. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another. Descriptive statistics of the data are presented in Appendix 3.

Therefore, the researcher couldn't reject the hypothesis of the study that is "quality of internal audit work is positively related to the effectiveness of internal audit." as the result reveals that quality of IA work had a positive association on the effectiveness of IA and statistically significant. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow- up of IA recommendations; and effective communication with external auditors had a relatively significant effect on the effectiveness of IA in FDRE ministers s. The result is consistent with the previous studies (Mihret & Yismaw, 2007; Wubishet & Dereje, 2014) but inconsistent with previous studies (Abu-Azza, 2012; Ramachandran, et al., 2012; Tadiwos, 2016).

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This last chapter of the study contains two main parts: the conclusion of the study and the recommendation of the study. Both conclusion and recommendations are based on the results of the study. In the section of the conclusion of the study; the researcher tried to show the inferences and the findings of the study. In the second part of this chapter the researcher suggest recommendations based on the study result.

5.2 Summery of findings

This study examined predetermined factors that could affect the internal audit effectiveness in FDRE ministers s. A model developed for contains five interrelated factors: internal audit charter; organizational independence of internal auditors, adequate and competent internal audit staff, management support and quality of audit work.

Based on the finding of the research, internal audit charter did not play a role in the effectiveness of IA in FDRE ministers s. It means the existence of an effective audit committee, individual IA independence; organizational independence of IA and IA unrestricted access had a negative but significant effect at a statistical significance level of ($P < 0.05$) on the effectiveness of IA.

Based on the finding of the research, independence of IA play a minimum role in the effectiveness of IA in FDRE ministers s. It means the existence of an effective audit committee, individual IA independence; organizational independence of IA and IA unrestricted access had a positive but not significant effect at a statistical significance level of ($P < 0.05$) on the effectiveness of IA.

In the same manner based on the finding of the research adequate and competent internal audit staff plays a minimum role than the independence of IA on the effectiveness of IA in FDRE ministers. Its association is weak with the effectiveness of IA in FDRE ministers s.

The findings of the research showed the management had direct support and assistance and they also aware of internal auditors need, they got essential funds (facilities) to help them

perform auditing activities as desired. Finally, the management adopted the findings of the internal auditors. Therefore, top management support is determinant factors, according to the findings of the study it has a positive and significant effect at a statistical significance level of ($P < 0.1$) on the effectiveness of IA.

Based on the finding of the research, the quality of IA work plays a positive role in the effectiveness of IA in FDRE ministers s. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow-up of IA recommendations; IA report accuracy and effective communication with external auditors had a positive and significant effect at a statistical significance level of ($P < 0.1$) on the effectiveness of IA.

In General speaking, the study revealed that management support and quality of audit work are serious determinant factors which must not be ignored by the FDRE ministers. And the internal audit charter is significant role in the effectiveness of IA.

5.3 Conclusion

IA has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. The following major findings are noted based on the analysis of IAD staffs, external auditors and MoF inspection team questionnaires and reviews of documentary evidence.

The internal audit charter has negative and significant relationship with IAE. This implies that internal audit charter is available in sectors and internal auditors have knowledge and awareness of it. Based on the results of the study its relationship with the effectiveness of internal audit is inverse and significant effect.

The organizational independence of internal auditors has positive and insignificant relationship with IAE. This implies that the internal auditor's independence is related to the effectiveness of IA. When their independence increase the EIA also increase but its significance is low.

The adequacy and competency of internal auditors has negative relationship with IAE. Even if it is important to have adequate and competent staff needed to have effective IAD the results shows it has no effect on the effectiveness of internal audit.

As per findings of the study the management support has a positive and significant effect on the effectiveness of internal audit in FDRE minister. The management should encourage the IAD and support them to get necessary resources like facilitate to have the best support they can get.

The findings of the study reveal that the quality of internal audit work has a positive effect on the effectiveness of internal audit. If the internal auditors recommendation implemented properly and the communication between internal and external auditors become strong, the IA effectiveness increases.

5.4 Recommendations

The overall objective of the study is to identify the factors determining the effectiveness of IA in FDRE ministers s. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

- ❖ Executive organs' managements should not undermine the contributions of other factors, which are independence of IA that were related but statistically not significant with the EIA in the FDRE ministers. To overcome such type threat for internal auditors' effectiveness, the country's federal budgetary regulatory organ (i.e. MoF) should work more on the ways of ensuring the organizational independence of internal auditors and competency of IA staff.

- ❖ The management should put more emphasis on the support received by the internal auditors, especially in the areas of the adoption of the audit reports as this is the only way to gauge the effectiveness of the internal auditors. The management can also support the internal audit by providing the department with adequate budgetary allocations. To realize these internal auditors should recruit in the right proportion so as to reduce the shortage of internal auditors and also should enhance the development of the internal auditors by organizing more seminars and workshops where they could enhance their audit skills.

- ❖ Management should give more independence to the internal audit by briefly define internal audit charter the extent of the relationship between internal auditors and the management; should smoothly communicate them their accountability and responsibility; should briefly describes the rights and duties of internal auditors and of the employer.

- ❖ The regulatory organ; MoF should design risk based audit and detail internal audit framework of throughout the FDRE ministers, so as to strength transparent and well organized approach for ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions, covering financial, operational and management audit is put in place.

- ❖ The researcher encourages further research should be conducted to identify the effectiveness of internal audit in the area by considering some variable such as audit standards, placement of adequate and competent internal audit staff, Career and advancement, and objectivity of Internal auditors. Those may help to identify are the powerful factors determine the EIA.

REFERENCES

- Abbu-Azza, W. (2012), Perceived Effectiveness of the Internal Audit Function in Libya: A Qualitative Study using Institutional and Marxist Theories, Unpublished Doctoral Dissertation, University of Southern Queensland, Faculty of Business and Law, Australia.
- Abdulaziz Alzeban and Nedal Sawan (2013), The role of internal audit function in the public sector context in Saudi Arabia” King Abdulaziz University
- Abraham, Y. (2015). Determinants of Internal Audit Effectiveness Empirical Study on the Construction and Business Bank. Unpublished Master's Thesis, Saint Marry Univesity, Faculty of Business, Addis Ababa.
- Adams, M.B. (1994), “Agency theory and the internal audit”: *Managerial Auditing Journal*, Vol. 9(8), pp.8-12.
- Ahmad, N., Othman, R., & Jusoff, K. (2009), The effectiveness of internal audit in Malaysian public sector, *Journal of Modern Accounting and Auditing*, 5(9), 784 -790.
- Alemzewed Ayele (2019), Determinants of Internal Audit Effectiveness In Ethiopia in the Case Of Selected Budgetary Public Sectors, Addis Ababa University.
- Al -Twaijry, A., Brierley, J. A., & William, D. G.(2003). The development of internal audit in Saudi Arabia: an institutional theory perspective. *Critical Perspectives on Accounting*, 14(5), 507-531.
- Al-Twaijry, A., Brierley, J. A., & William, D. G. (2004), An examination of the relationship between internal and external audit in the Saudi Arabian corporate sector. *Managerial Auditing Journal*, 19(7), 929-944.

- Arena, M., & Azzone, G.(2006), Enterprise Risk Management and Internal Audit a multiple case study. IN: Fourth European Academic Conference on Internal Auditing & Corporate Governance, London.
- Arena, M., & Azzone, G.(2007), Internal audit departments: adoption and characteristics in Italian companies. *International Journal of Accounting*, 11(2), 91-114.
- Arena, M., & Azzone, G. (2009). Identifying Organizational Drivers of Internal Audit Effectiveness. *International Journal of Auditing*, 13(1), 43-60.
- Arens, A. A., Elder, R. J., & Beasley, M. s. (2012). *Auditing and Assurance Services: an Integrated Approach*. 14th edition, New Jersey: Pearson Prentice Hall.
- Asare, T. (2009), internal auditing in public sector: Promoting good governance and performance improvement. *International Journal on Governmental Financial Management*, 3(1), 15-27.
- Azad, A. (1994), Time budget pressure and filtering of time practices in internal auditing. *Managerial Auditing Journal*, 9(6), 17-25.
- Baltaci, M., & Yilmaz, S.(2006), Keeping an eye on subnational governments: Internal control and audit at local levels, World Bank Institute, Washington, D.C.
- Baheri, J., Sudarmanto, & Wekke, I. S. (2017). The Effect of Management Support to Effective Internal Audit for Public Universities. *Juornal of Engineering and Applied Sciences*, 12(7), 1696-1700.
- Belay, Z.(2007), Effective Implementation of Internal Audit Function to Promote Good Governance in the Public Sector, Ethiopian Civil Service College Research, Publication Consultancy Coordination Office, conference paper, Addis Ababa.
- Burnaby, P., Abdol mohammadi, M., Hass, S., Sarens, G., & Allegrini, M. (2009), Usage of Internal Auditing Standards by companies in the United States and select European countries. *Managerial Auditing Journal*, 24(9), 835-860.

- Bou-Read, G., & Capitanio, C. (1999). The Implications of Computer Hacking on the Internal Audit Function: A Banking Industry Study. *Internal Auditing*, 14 (3), 36-41.
- Changwony, M. K., & Rotich, D. G. (2015), Role of Internal Audit Function in Promoting Effective Corporate Governance of Commercial Banks in Kenya. *International Journal of Business & Law Research*, 3(1), 15-33.
- Cohen, A., & Sayag, G. (2010), The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations. *Australian Accounting Review*, 20(3), 296-307.
- Cooper, D. R., & Schindler, P. S. (2006). *Business Research Methods*. 9th ed. New York: McGraw-Hill/Irwin.
- Creswell, J. W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approach*. 3rd ed. California, USA: Sage Publications Inc.
- Denzin, N.K. and Lincoln, Y.S. (2005) Introduction: The Discipline and Practice of Qualitative Research. Eds., *Handbook of Qualitative Research*, 3rd Edition, Sage, Thousand Oaks, 1-32
- DiMaggio, P., & Powell, W.(1983). The iron cage revisited: institutional isomorphism and collective rationality in organizational fields and collective rationality in organizational fields. *American Socio Logical Review*, 48(2), 147-160.
- Endaya, K. A., & Hanefah, M. M. (2013), Internal Audit Effectiveness: An Approach Proposition to Develop the Theoretical Framework. *Research Journal of Finance and Accounting*, 4(10), 92-102.
- Engle, T. (1999), Managing external auditor relationships. *The Internal Auditor*, 56(4), 65-69.
- Federal Democratic Republic of Ethiopia, Definition of Powers and Duties of the Executive Organs Proclamation No. 916/2015.

- Federal Democratic Republic of Ethiopia, “Definition of Powers and Duties of the Executive Organs Proclamation No. 1097/2018
- Felix, W., Gramling, A., & Maletta, M. (2001). The Contribution of Internal Audit as a Determinant of External Audit Fees and Factors Influencing this Contribution. *Journal of Accounting Research*, 39(3), 513-534.
- Flesher, D., & Zanzig, J. (2000), Management accountants express a desire for change in the functioning of internal auditing. *Managerial Auditing Journal*, 15(7), 331-337.
- Fetu Ahmed Berehe (2016), Determinants of Internal Audit Effectiveness in Roads Construction Sector, Case Study in Ethiopian Roads Authority, Addis Ababa
- George, D., Theofanis, K., & Arampatzis, K. (2015). Factors associated with Internal Audit Effectiveness: Evidence from Greece . *Journal of Accounting and Taxation*, 7(77), 113-122.
- George Tackie, Edward Marfo-Yiadom & Sampson Oduro Achina,(2016) “Determinants of Internal Audit Effectiveness in Decentralized Local Government Administrative Systems” School of Business, University of Cape Coast, 184-195
- Gill,J., & Johnson, P. (2002), *Research Methods for Managers*. London: Sage.
- Golen,S. (2008), Communication Barriers between Internal and External Auditors. *ABEA Journal*, 27(1), 35-36.
- Goodson, S. G., Mory, K. J.,& Lapointe, J. R. (2012), *The Role of Auditing in Public Sector Governance*. Altamonte Springs, Fla., USA: The Institute of Internal Auditors.
- Goodwin, J., & Yeo, T. Y. (2001), Two Factors Affecting Internal Audit Independence and Objectivity: Evidence from Singapore. *International Journal of Auditing*, 5(2), 107-125.
- Goodwin, J. (2004). A comparison of internal audit in the private and public sectors. *Managerial Auditing Journal*, 19(5), 640-650.

- Goodwin, S., & Kent, P. (2006), The use of internal audit by Australian companies, *Managerial Auditing Journal*, 21(1), 81-101.
- Gortiz, A. (2004). The impact of material incentives on response quantity, response quality, sample composition, survey outcome and cost in online access panels. *International Journal of Market Research*, 46(4), 327-346.
- Gupta, P. P. (2001). *Internal audit reengineering: survey, model, and best practices*. FL, the Institute of Internal Auditors (IIA) Research Foundation.
- Hahn, M. (2008), *Overcoming Communication Barriers in Organizations*, Retrieved May 19, 2018, from <http://ezinearticles.com>.
- Haron, H., Chambers, A., Ramsi, R., & Ismail, I. (2004). The Reliance of External Auditors on Internal Auditors. *Managerial Auditing Journal*, 19(9), 1148-1159.
- Hass, S., Abdolmohammadi, M., & Burnaby, P. (2006), The Americas literature review on internal auditing. *Managerial Auditing Journal*, 21(8), 835-844.
- Hawa, A. (2016). *Factors that Identify the Effectiveness of Internal Audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Offices*. Unpublished Masters Thesis, College of Business and Economics, Addis Ababa.
- IIA, (2001), *Standards for the Professional Practice of Internal Auditing*, Florida: Altamont
- IIA. (2006). *The role of internal auditing in public sector governance: Altamonte Springs*.
- IIA. (2016). *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Kinfu, J., & Bayou, E. (2009), *Auditing from Thinking to Doing: Introduction to Principle and Practices*, Kuraz International Publishing Enterprise, Addis Ababa.
- Kothari, C. (2004), *Research Methodology Methods and Techniques*. 2nd Revised Edition ed. New Delhi: New Age International Limited.

- Lawrence, B. Sawyer (1988), *The Practice of Modern Internal auditing Revised & Enlarged* (Third Edition). USA: IIA INC
- Lenz, R., & Sarens, G. (2012). *Internal Auditing Effectiveness: Multiple Case Study Research in Germany That Hardens Role Theory and the Relational Theory of Coordination*. Unpublished Paper, Université Catholique de Louvain, Louvain School of Management, Belgium.
- Leung, P. and Cooper, B.J. (2009), “Internal audit – an Asia-Pacific profile and the level of compliance with Internal Audit Standards”: *Managerial Auditing Journal*, 24(9), pp.861-882.
- Marczyk, G., DeMatteo, D., & Festinger, D. (2005). *Essentials of Research Design and Methodology*. Hoboken, New Jersey: John Wiley & Sons. Inc.
- Mastan, D. F., Habatamu, G., Rajeswari, P., & Muhammed, S. (2015). *The Effectiveness of Internal Audit in Improving Organizational Performance: Case Study of Wollo University*. *Indian Journal of Applied Research*, 5(7), 547-550.
- Mihret, D.G. and Yismaw, A.W. (2007), “Internal audit effectiveness: an Ethiopian public sector case study”: *Managerial Auditing Journal*, 22(5), 470-484.
- Mihret, D. G. (2010), *Antecedents and Organizational Performance Implication of Internal Audit Effectiveness: Evidence from Ethiopia*, Unpublished Doctoral Dissertation, University of Southern Queensland, Faculty of Business, Toowoomba.
- Mihret, D. G., & Woldeyohannis, G. Z. (2008), *Value-added role of internal audit an Ethiopian case study*. *Managerial Auditing Journal*, 23(6), 567-595.
- Mihret, D. G., Mula, J. M., & James, K. (2010). *Antecedents and Organizational Performance Implications of Internal Audit Effectiveness: Some Propositions and Research Agenda*. *Pacific Accounting Review*, 22(3), 224-252.

- Ministry of Finance and Economic Development (2004), Internal Audit Standards and Code of Ethics for Internal Auditors and Internal Audit Procedural Manual: Ministry of Finance and Economic Development.
- Mizrahi, S., & Ness-Weisman, I. (2007), Evaluating the effectiveness of auditing in local municipalities using Analytic Hierarchy Process (AHP): a general model and the Israeli example. *International Journal of Auditing*, 11(3), 187-210.
- Mustika, A. C. (2015). Factors Affecting the Internal Audit Effectiveness. *Jurnal Akuntansi & Auditing*, 12(2), 110-122.
- Nagy, AL, Cenker, WJ (2002), 'An assessment of the newly defined internal auditing function', *Managerial Auditing Journal*, pp.130-137
- O'Regan, D. (2002), "The CPA's transition to the world of internal auditing": *The CPA Journal*, August, pp.11-31.
- Paape, L. (2007). Corporate Governance: The Impact on the Role, Position, and Scope of Services of the Internal Audit Function. Unpublished Doctoral Dissertation, RSM Erasmus University, Erasmus School of Economics, Rotterdam.
- Peursem, K., & Pumphrey, L. (2005), Internal Auditors and Independence: An agency lens on corporate practice, *Financial Reporting, Regulation and Governance*, IV (2), 1-33.
- Pilcher, R., Gilchrist, D., & Singh, I. (2011), The Relationship between Internal and External Audit in the Public Sector: A Case Study s.I. AFAANZ Conference.
- Prawit, D., Prawit, J., & Wood, D. (2010). Internal Audit Function Quality and Earnings Management. *The Accounting Review*, 84(4), 1255-1280.
- Ratliff, R., Wallace, W., Leobbecke, K., & McFarm, W. (1996). *Internal auditing: principles and techniques*, 2nd ed. The Institute of Internal Auditors. Altamonte Springs, Florida.

- Reynolds, M.A. 2000, 'Professionalism, Ethical Codes and the Internal Auditor: Amoral Argument', *Journal of Business Ethics*, 24: 115–24.
- Sarens, G., & De Beelde, I. (2006b). Internal Auditors' perception about their role in risk management: A comparison between US and Belgian companies, *Managerial Auditing Journal*, 21(1), 63-81.
- Santiso, C. (2006). Improving fiscal governance and curbing corruption: how relevant are autonomous audit agencies international *Public Management*, 7, 97-108.
- Seol I. and Sarkis J. (2006), "A Model for Internal Auditor Selection: The Case of a Trading Company in Hong Kong": *International Journal of Auditing*, 10(3), pp.243–53.
- Seol I., Sarkis J. and Lefley F. (2011), "Factor Structure of the Competency Framework for Internal Auditing (CFIA) Skills for Entering Level Internal Auditors": *International Journal of Auditing*, 15(3), pp.217–30.
- Shewamene, H. (2014). Determinants of Internal Audit Effectiveness in the public Sector. Case study in Selected Ethiopian Public Sector Offices. Unpublished Master's Thesis, Jimma University, College of Business and Economics, Jimma.
- Smith, G., (2005), "Communication skills are critical for internal auditors": *Managerial Auditing Journal*, 20(5), pp.513-519.
- Sterck, M., & Bouckaert, G. (2006). International audit trends in the public sector. *The Internal Auditor*, 63(4), 49-53.
- Stewart, J., & Subramaniam, N. (2010), Internal audit independence and objectivity: emerging research opportunities. *Managerial Auditing Journal*, 25(4), 328-360.
- Tadiwos Misganaw (2016), Factors Determining effectiveness of Internal Audit in Ethiopian Commercial Banks, Addis Ababa
- Tandon, B. N., Sudharsanam, S., & Sundharabahu, S. (2010), *A Hand Book of Practical Auditing*: 14th edition, pp. 112-115, New Delhi: S. Chand & Company Ltd.

- Vanasco, R., Skousen, C., & Santagato, L. (1996), Auditor independence: an international perspective. *Managerial Auditing Journal*, 11(9), 4-48.
- Van Peurse, K. (2005), "Conversations with Internal Auditors: The Power of Ambiguity": *Managerial Auditing Journal*, 5, pp.489–512.
- Walker, P., Shenkir, W., & Barton, T. (2002). *Enterprise risk management: putting it all together*. Institute of Internal Auditors Research Foundation, Altamonte Springs, Florida.
- Wondwossen, Z. (2016). *Determinants of Internal Audit Effectiveness in the public Sector. Case Study in Oromia National Regional State*. Addis Ababa University, Faculty of Business and Economics, Addis Ababa.
- Wondimagegn, G. (2016). *Determinants of Internal Audit Effectiveness in the Public Sector. Case Study in Selected Ethiopian Health Sector Office*. Unpublished Master's Thesis, Saint Mary University, Faculty of Business, Addis Ababa.
- Wubishet, J. D., & Dereje, G. R. (2014). Factors Determining Internal Audit Quality: Empirical Evidence from Ethiopian Commercial Banks. *Research Journal of Finance and Accounting*, 5(23), 86-94.
- Yin, R. (2003). *Case Study Research: Design and Methods*. 3rd ed. Thousand Oaks: Sage Publications.
- Zucker, L. (1987), Institutional Theories of Organization, *Annual Review of Sociology*, 13, 443-464.

Appendix 1: Questionnaire for Internal Audit Department Staffs



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

Questionnaires for Internal Audit Staff

Dear Sir/Madam:

The purpose of questionnaire is to gather information about determinants of internal audit effectiveness in FDRE ministers. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study of **Determinants of Internal Audit Effectiveness in Ethiopia the case of FDRE Ministers**. The study is conducting as part of the undersigned researcher's study for the partial fulfillment for the award of **Master's Degree in Accounting and Finance**.

The questionnaire is anonymous; so please do not write your name on it. 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. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge.

Thank you in advance for your support and participation.

With best regards,

Mihret Abebe

If you have any question regards to the questionnaire please call. Mobile: +251-913-056-304, Email: mercyebo2@gmail.com

Section I. General profile of Respondent

General Instruction:

Please you are kindly requested to indicate your choice by putting a tick mark (√) the box.

1. Qualification (Educational background)

Below Diploma	<input type="checkbox"/>	Diploma	<input type="checkbox"/>
Degree (BA, BSC)	<input type="checkbox"/>	Masters (MA, MSC, MBA)	<input type="checkbox"/>
Above Master	<input type="checkbox"/>		

Certified like: CIA, ACCA, CPA, or Other

Other (Including Audit Profession Certification) Specify _____

2. Your field of study:

Accounting and finance	<input type="checkbox"/>	Management	<input type="checkbox"/>
Economics	<input type="checkbox"/>	Law	<input type="checkbox"/>
Other specify _____			

3. Year of experience in budgetary public sector offices

Two years and less	<input type="checkbox"/>	2-5 years	<input type="checkbox"/>
5-10 years	<input type="checkbox"/>	Above ten years	<input type="checkbox"/>

4. Year of experience in internal audit department

Two years and less	<input type="checkbox"/>	2-5 years	<input type="checkbox"/>
5-10 years	<input type="checkbox"/>	Above ten years	<input type="checkbox"/>

5. The responsibility you hold in this company (at present) _____

Section II. The Questionnaires items (questions)

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (✓) in the appropriate Column.

Key: SA= Strongly Agree; A= Agree; MA= Moderate Agree; D=Disagree; SD= Strongly Disagree
5→ Strongly Agree; 4→Agree; 3→Moderate Agree; 2→Disagree; 1→Strongly Disagree

The Internal Audit Charter	SA 5	A 4	MA 3	D 2	SD 1
An internal audit charter is maintained (available) in my sector.					
The purpose and authority of internal audit is clearly defined in the charter.					
The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors					
The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities.					
Organizational Independence of Internal Auditors	SA 5	A 4	MA 3	D 2	SD 1
Internal audit provides reports to the Minister and/or audit committee.					
Internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from any one					
Internal auditors have unrestricted (full) access to all departments and employees documents in the sector					
Internal audit participate in the development of the sector processes.					
Internal audit perform the auditing activities without any interference and influence from any officials and the offices.					
Adequate and Competent of Internal Audit staff	SA 5	A 4	MA 3	D 2	SD 1
In your department internal auditors have adequate educational background.					
In your sectors audit department has improved in terms of appropriately qualified or professional staff					
Internal auditors have a deep professional knowledge on the overall activities of the department.					
Number of staff in the internal audit department is good and appropriate for the sector’s internal audit operation.					
Internal auditors undertake continuous professional development trainings or attend educational seminars.					

Management Support	SA 5	A 4	MA 3	D 2	SD 1
Senior management supports internal audit personnel and aware of internal audit needs.					
Management encourages internal audit department by implement recommendations and promote value-added activities to strength internal audit function.					
Internal audit department is large enough to efficiently carry out its duties.					
Top management of public sectors demands implementation of corrective actions recommended by external auditors					
The internal audit department gets the necessary resources that help to perform auditing activities as needed.					

Quality of Internal Audit	SA 5	A 4	MA 3	D 2	SD 1
Internal audit has an audit plan and efficiently performed according to the plan.					
Internal audit findings are correctly argued and justified and its reports are accurate.					
Internal audit recommendations can be easily implemented.					
Effective communication established between internal and external auditors.					
External auditors use internal audit working papers and reports in conducting their audit.					
Established internal audit objectives were accomplished.					

Effectiveness of Internal Audit	SA 5	A 4	MA 3	D 2	SD 1
Internal Audit function in your excutive organ is effective					

Please suggest if you face any kind of idea in evaluation of internal audit effectiveness in your sector that is not addressed in this questionnaire.

Appendix 3: Questionnaire for Inspection Department Staffs & External Auditors



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
Questionnaire for Inspection Department Staffs & External Auditors

Dear Sir/Madam:

The purpose of questionnaire is to gather information about determinants of internal audit effectiveness in FDRE Ministers. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study of **Determinants of Internal Audit Effectiveness in FDRE ministers**. The study is conducting as part of the undersigned researcher's study for the partial fulfillment for the award of **Master's Degree in Accounting and Finance**.

The questionnaire is anonymous; so please do not write your name on it. 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. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge.

Thank you in advance for your support and participation.

With best regards,

Mihret Abebe

If you have any question regards to the questionnaire please call. Mobile: +251-913-056-304

Section I: General profile of Respondent:

General Instruction:

Please you are kindly requested to indicate your choice by putting a tick mark (✓) the box.

1. Qualification (Educational background)

Below Diploma	<input type="checkbox"/>	Diploma	<input type="checkbox"/>
Degree (BA, BSC)	<input type="checkbox"/>	Masters (MA, MSC, MBA)	<input type="checkbox"/>
Above Master	<input type="checkbox"/>		

2. Your field of study:

Accounting and finance	<input type="checkbox"/>	Management	<input type="checkbox"/>
Economics	<input type="checkbox"/>	Law	<input type="checkbox"/>
Other specify	_____		

3. Year of experience in budgetary FDRE ministers

Two years and less	<input type="checkbox"/>	2-5 years	<input type="checkbox"/>
5-10 years	<input type="checkbox"/>	Above ten years	<input type="checkbox"/>

4. Year of experience in internal audit department

Two years and less	<input type="checkbox"/>	2-5 years	<input type="checkbox"/>
5-10 years	<input type="checkbox"/>	Above ten years	<input type="checkbox"/>

5. The responsibility you hold in this company (at present) _____

Section II. Questions on Internal Audit

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (✓) in the appropriate Column.

Key: SA= Strongly Agree; A= Agree; MA= Moderate Agree; D=Disagree; SD= Strongly Disagree

5→ Strongly Agree; 4→Agree; 3→Moderate Agree; 2→Disagree; 1→Strongly Disagree

The internal audit charter	SA 5	A 4	MA 3	D 2	SD 1
An internal audit charter is maintained (available) in my sector.					
The purpose and authority of internal audit is clearly defined in the charter.					
The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors					
The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities.					
Organizational independence of internal auditors	SA 5	A 4	MA 3	D 2	SD 1
Internal audit provides reports to the Minister and/or audit committee.					
Internal auditors include in their reports any fault, fraud, wrongdoing, and mistake without influence from other departments and officials.					
There is no restriction on any document and department for internal auditors in your sector.					
Internal audit department participate in the development of the sector processes.					
Internal audit perform the auditing activities without any interference and influence from any officials and the offices.					
Adequate and Competent of Internal Audit staff	SA 5	A 4	MA 3	D 2	SD 1
Internal auditors in the excutive organs have adequate educational background.					
Internal auditors in excutive organs have appropriate knowledge and skill to perform audit.					
Internal auditors’ existence in excutive organs helps to use resources efficiently.					
Internal auditors in excutive organs maintain a good understanding with external auditors in terms of the subject matters.					
Internal auditors in excutive organs undertake continuous professional development trainings or attend educational seminars.					

Management Support	SA 5	A 4	MA 3	D 2	SD 1
The internal audit department gets the necessary resources that help to perform auditing activities as needed.					
The Internal audit department discusses audit findings with your office.					
The existence of internal audit assists for efficient use of resources in the department /division.					
The internal audit department provides useful recommendations, criticisms and information that help for better management in your sector.					

Quality of Internal Audit	SA 5	A 4	MA 3	D 2	SD 1
Internal Audit findings that reported by internal auditors are correct.					
Internal auditors in your sector check the adequacy of internal controls of the sector.					
Internal Audit findings are supported by sufficient evidence.					
Internal auditors ascertain compliance with the public sector policies and procedures.					
Internal auditors ascertain the public sectors compliance with external contracts, laws and regulations when applicable.					
Established internal audit objectives were accomplished.					

Effectiveness of Internal Audit	SA 5	A 4	MA 3	D 2	SD 1
Internal Audit function in the FDRE minister is effective					

Please suggest if you face any kind of idea in evaluation of internal audit effectiveness in your sector that is not addressed in this questionnaire.

Appendix 3: Descriptive Statistics for Questionnaire Survey of Inspection Department Staffs & External Auditors

Variable	Obs	Mean	Std. Dev.	Min	Max
IA Charter	12	3.958	.760	2.75	5
Organizational Independence of IA	12	3.417	.536	2.5	4
Adequate and Competent of IA staff	12	3.417	.674	2.4	4.6
Management Support	12	3.625	.608	2.75	5
Quality of IA	12	3.778	.410	3.33	4.6
Effectiveness of IA	12	3.667	.778	3	5