



**ASSESSMENT OF INTERNAL AUDIT PRACTICE IN  
ETHIOPIAN AIRLINES GROUP**

**By**

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Accounting and Finance.**

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## **Declaration**

I, Henok Balew, hereby declare that this research work entitled; “Assessment of Internal Audit Practice in the cases of Ethiopian airlines group “submitted for the award of degree of Master of Science in Accounting and Finance. This is my original work and that all sources of materials used for the study have been duly acknowledged.

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Addis Ababa University, Addis Ababa, March 2022

## APPROVAL

The Thesis prepared by Henok Balew entitled “Assessment of Internal Audit Practice in Ethiopian airlines group has been submitted for examination with my approval as an advisor.

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## **Abstract**

*Internal audit maintains for a business enterprise in the global business environment that can ensure the safeguarding of the enterprise's assets. Aside from the previously conducted research, this paper would examine the internal auditing practices of Ethiopian Airlines group. The overall goal of this study was to evaluate internal audit practices in the airline industry using Ethiopian Airlines as an example. Specific objectives of this study were to evaluate the overall structure of the internal audit system, the obstacles that the internal audit encountered, the autonomy of the internal audit from management, and the actual practice's compliance with standards of the organization. This study used a descriptive research method with a judgmental or purposive sampling technique. The target population for the study was employees of Ethiopian Airlines located at Head Office, Internal audit division. The sample size for this study was 50 from all employees in the internal audit department and 92% of the target sample was attained through questionnaires sent. The analysis shows that there is strong internal audit structure and adequacy across the company and there is independence of the audit section from the company line structure. This audit report also revealed that there is no freedom of auditors to disclose any audit findings without prior approval of the management. Finally, a conclusion and recommendation have been made based on the study's findings.*

**Key word:** - Assessment of internal Audit practice, Ethiopian airlines group

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# CHAPTER ONE

## 1. INTRODUCTION

This chapter contains the Internal Audit principle, its repetition, and an introduction to the company that is the main subject of the thesis. Similarly, it has included the problem statement, research objectives, and questions that have arisen from it. This chapter also discussed the significance of the study, the scope of the study, and the limitations of the paper.

### 1.1 Background of the Study

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicate the result to the interested users (Schwinger, 2005).

Internal auditing is an independent appraisal function established within an organization as a service to the organization. The objective of internal auditing is to assist members of the organization and the board in the effective discharge of their responsibilities (*Pickett, 2004*).

Internal auditors had to extend their area of action, becoming more involved in risk management, control and governance processes. In the case of these changes, new concepts begin to be more and more in the center of attention, the added value of internal audit to organizations and its effectiveness. In order to determine the efficiency and effectiveness of internal audit, it becomes more and more important to find relevant methods for measuring and assessment the performances obtained in assuring a plus of value (Spencer, 2003).

A good internal audit system, when carefully structured and strictly implemented, will assist management in safeguarding the organization's resources, producing reliable financial reports, and complying with laws and regulations. It would also lower the likelihood of significant errors and abnormalities. Internal auditing is the groundwork for preserving a company's stability. The research focuses on describing and analyzing the critical control directions that would be associated with internal auditing exercise.

In regard to see the existing and applicability of attributer and the standards in Ethiopian National Culture center performance to increase the quality of audit work raising awareness of audit work significance of internal auditing to the achievement of specific objectives. Internal audit reporting lines ideally classified in to administrative and functional, the chief audit executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization (Rolandas Rupsys,2005).

Ethiopian Airlines' internal auditing staff frequently reports all audit findings to the department head. This arrangement at the top of the organizational structure ensures that internal auditors have ready access to all units of the organization and that their recommendations are given immediate attention by the heads of departments and other line executive officers whose work they review. As a result, regardless of their reporting level, internal auditing personnel should not be subject to the authority of the chartered accountant. Internal auditors, on the other hand, are not as unbiased as external auditors. Internal auditors are employees of the organization for which they work, and as such, they are subject to the constraints that come with the employer-employee relationship. Internal auditors' work primarily consists of operational audits, but they may also perform numerous compliance audits.

## **1.2 Background of the Organization**

Ethiopian Airline is an Ethiopia flag carrier and is wholly owned by country's government. It was founded on 21 December in 1945 and commenced operation on 8 April 1946, expanding to international flight in 1951. Currently the airline facing huge competition from different airlines like Lufthansa, Emirates, Qatar and Turkish airline and the like. COVID- 19 Corona virus, Ebola outbreak Disease and Max B737 crash which killed 157 passengers including staffs have also impacted the airlines performance and going forward. Other challenges process inefficiencies, flight delays due to technical issue which negatively affects the on-time performance of the airline(<https://corporate.ethiopianairlines.com>).

Ethiopian Airlines has designed section called VP internal audit and compliance charged with the responsibility of safeguarding the company's assess, evaluate the adequacy of the internal control system and assuring the compliance of internal and external policies, rules and procedures.

### **1.3. Statement of the Problem**

Numerous forces in our times have led to a quiet revolution in internal audit. Among the main forces are complexity risks, frauds, and the rapid development of information technology. Companies require an effective and efficient internal audit system that will support continuous quality service delivery improvement to their customers and minimize unnecessary expenses (Gansberghe, 2005).

The primary goal of this research is to identify and close the gap between the company's actual practice and the theoretically stated general procedures. The primary responsibility of auditing is to assist the given organization in carrying out its duties and responsibilities. Internal auditing includes operation verification, evaluation, and compliance. The end result of any audit work is the creation of an audit report, but unlike the external auditor's report, the content of the audit function is not formalized in shortened version(Getachew,).

Internal audit is an independent and consulting activity designed to add value and improve an organization's operation. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance process. Internal auditors are not responsible for the execution of company activities; they advise management and the board of directors (or similar oversight body) regarding how to better execute their responsibilities (Wikipedia.org/wiki/internal audit).

Oscar (2019) tried to asses' internal audit practice and financial performance of banks in Tanzania, where the case study was CRDB bank. From the finding there is a very high extent that there is a positive relationship between internal audit quality and financial performance. Asamu, Otekunrin, &Falaye(2019) established that airlines cannot function effectively without internal control with their study on the impact of internal control on the financial performance on Nigerian airline industry.

Despite the fact that few studies have been conducted on the effectiveness of internal audits on the financial performance of various institutions, the assessment of internal audit practice in the case of Ethiopian Airlines remains unexplored. As a result, the purpose of this research is to examine the Ethiopian Airlines Group's internal audit assessment practice.

As per the standard operating procedure of the company, internal audits should be closed within 60 days by the auditee department. However, as per Internal audit section report on end of 2020-21 fiscal year (June 2021), there were over 100 pending overdue internal audit items which were not closed on time. To this end, this paper will attempt to assess role being played by internal auditing team in the case of Ethiopian airlines group in achieving organizational goals and objectives. Hence, the research is driven by the lack of compressive research gaps undertaken on Ethiopian Airlines.

## **1.4. Research Questions**

1. How is ETAG's overall structure of Internal Audit system?
2. What are the challenges confronting ETAG's internal audit system?
3. Does internal auditors are independent from top management influence?
4. How effective is the internal audit in ensuring the degree of compliance with rule and regulation?

## **1.5. Research Objectives**

### **1.5.1. General Objectives**

The study's overarching goal was to evaluate Ethiopian Airlines Group's internal audit practices

### **1.5.2. Specific Objectives**

- ✓ To assess the overall structure of internal audit in Ethiopian airlines group.
- ✓ To identify challenges facing by the system of internal audit.
- ✓ To examine the independence of internal auditors.
- ✓ To evaluate the internal audit in ensuring the degree of compliance of the country`s and the company`s rules and regulation.

## **1.6. Significance of the Study**

The findings and recommendations of this study would then assist Ethiopian Airlines in broadening the position and image of Internal Audit to make it work better, beneficial, and highly qualified.

The study also encourages Ethiopian management to establish a completely separate internal audit function, making it more effective, and by implementing the recommendations contained in internal audit reports, top management would be able to increase the airline's efficiency.

It would assist scholars in admiring and expanding their knowledge of internal audit in order to adhere to the professional ethics required by the IAS. Furthermore, the study's findings serve as a springboard for future students and researchers who wish to conduct research on the same or similar topics. The study would then enlarge the researcher's understanding of Internal Auditing, that is the most pressing issue confronting the world's largest corporations.

### **1.7. Scope of the Study**

Based on geographical scope, the study has really only concentrated on Ethiopian Airlines because it is the country's solely public airline, so it is challenging to include the internal audit assessment of other airlines in Ethiopia because there is no private airline with the same status as Ethiopian Airlines, and selecting a foreign airline is not feasible at this stage. All most all respondents were from Internal audit department and other financial departments to get objective evidence to the study.

### **1.8. Limitation of the Study**

This study, like other projects and studies, may have some limitations. The first is that, despite the fact that ETAG is a global company with many offices around the world, my access and study are limited to the company's headquarters in Addis Ababa, Ethiopia. The data collection method used was a questioner mode of data collection, which could be a limitation. The unpredicted disease outbreak disease (COVID-19) had a significant impact on data collection, as well as the study's time and cost. Obtaining some audit records and reports was difficult due to the company's privacy and confidentiality, which was another limitation of the study.

### **1.9. Organization of the Paper**

This paper is divided into five chapters. The first section presents the study's background, organization, problem statement, objective of the paper, significance of the study, scope, and limitations. The second chapter reviewed related literature, and the third chapter described the



research methodology and design. The fourth chapter is about data visualization and analysis. The fifth and final chapter concludes with a summary, a recommendation, and a conclusion.

# CHAPTER TWO

## 2. LITERATURE REVIEW

### 2.1. Introduction

This section gives an overview of a concepts of the most widely used auditing terms. Other definitions, on the other hand, would have been defined in the relevant sections of this study as needed. Numerous important terms, concerns, and concepts are addressed and explained in the theoretical literature review. Evidence from previous studies and practitioners will be discussed in the empirical literature review.

### 2.2 Theoretical Framework

Numerous different key terms, aspects, and concepts are discussed and explained in the theoretical literature review. There are several theories that could explain the increased demand for audit services. Some are well-known in research, while others are more based on perceptions. The agency theory is the most well-known and widely used audit theory (Ittonen, 2010).

#### 2.2.1. The concept of Audit

The audit concept would be examined under the following headings:

- I Defining Audit;
- (II) Need for Auditing;
- (III) Responsibilities of Internal Audit & Audit Committee;
- (IV) Code of Ethics;
- (V) Audit Features and Prospects; and
- (VI) Factors Affecting Internal Audit.

The term 'audit' is derived from the Latin word 'audire,' which means 'to hear.' Thus, the word "audit" originally meant "to hear," and auditor literally meant "hearer." The auditor's hearing function was then designed to declare that the accounts kept by management and the financial statements prepared by them were 'true and correct.' His role was to provide assurance against

fraud and intentional mismanagement. Progressively, the auditor's hearing role was transformed into a verifying purpose. As a result, the primary goal of independent auditing is now to form an opinion on the accuracy, dependability, and fairness of accounting elements presented in enterprise financial statements and to make this information available to external users (Korma, 2021).

### **2.2.2. Definition of Internal audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors, 2012). It is an independent, objective assurance and financial advisory endeavor which contributes and improves the operations of a company. It assists an organization in achieving its goals by having brought a systematic, systematic approach to evaluating and improving the effectiveness of risk management, regulate, and governance processes (Hailemariam, 2014). Internal audit has two roles, according to this definition:

(1) to provide an independent assurance service to the board, audit committee, and management, with a focus on assessing the effectiveness of the governance, risk management, and control processes put in place by management (Korma, 2021).

(2) To advise management on governance risks and controls, such as the controls that will be required when embarking on new business ventures (Institute of Chartered Accountants in England & Wales, 2004).

### **2.2.3. The Need for Auditing**

The need for auditing stems from a potential conflict of interest between stakeholders and managers. The contractual agreement between these parties typically requires management to release a set of financial data that purports to show the entity's results and financial position of operations ("Theoretical Issues," n.d.).

The analysis presented below is for the theories that endorse the need for auditing, and they are as

follows: Agency Theory (a); Policeman Theory (b); Credibility Theory (c); Moderator of Claimants Theory (d); Quasi-Judicial Theory (e); and Theory of Inspired Confidence (f).

**a) Agency Theory:**

When one or more principals (for example, an owner) appoint another person to act as their agent (or steward) to perform a service on their behalf, an agency relationship is formed. The agent is given some decision-making authority as a result of performing this service. The principal's delegation of responsibility and the resulting division of labor are beneficial in promoting an efficient and productive economy. However, such delegation implies that the principal must put their trust in an agent to act in their best interests. What happens when principals have doubts about the motives of agents, causing them to question the trust they place in them? Institute of Chartered Accountants in England & Wales, 2005).

***Agency theory***

According to a simple agency model, principals lack reasons to trust their agents due to information asymmetries and self-interest, and will seek to address these concerns by putting in place mechanisms to align agents' interests with principals and reduce the scope for information asymmetries and opportunistic behavior (Institute of Chartered Accountants in England & Wales, 2005). In his article, Adams (1994) stated that Agency theory can provide for richer and more meaningful research in the internal audit discipline.

***Auditors as agents***

If, as simple agency theory suggests, principals do not trust agents to give them access reliable and relevant information, they will hire independent experts. However, this introduces the concept of auditors as agents of principals, which raises new concerns about trust, as well as threats to objectivity and independence. When performing an audit, auditors act as agents for principals, and this relationship raises similar trust and confidence concerns as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (whether directors or auditors) may be trusted without the need for additional incentives to align interests or monitoring mechanisms such as auditing or increased regulation. The simple agency model, on the other hand, would imply that agents are untrustworthy. Auditors, like directors, will have their own interests

and motives to consider. Auditors, for example, may be risk averse and, conscious of their potential liability, implement risk management activity that results in limitations in the scope of the investigation and disclaimers in their findings that principals may find difficulty (Korma, 2021).

Auditors act as agents to principals when performing an audit and this relationship therefore brings with it similar concerns with regard to trust and confidence as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (whether they are directors or auditors) may be trustworthy without a need for further incentives to align interests or monitoring mechanisms such as audit or increased regulation. However, the simple agency model would suggest that agents are untrustworthy. Like directors, auditors will have their own interests and motives to consider. For example, auditors may be risk averse and being conscious of their potential liability, introduce risk management processes that result in limitations in the scope of their work and caveats in their reports which principals may find frustrating (Korma, 2021).

Auditor independence from the board of directors is of great importance to shareholders and is seen as a key factor in helping to deliver audit quality. However, an audit necessitates a close working relationship with the board of directors of a company. The fostering of this close relationship has led (and continues to lead) shareholders to question the perceived and actual

independence of auditors and to demand tougher controls and standards over independence to protect them (Institute of Chartered Accountants in England & Wales, 2005). According to Hermanson et al. (1993), there are four conditions in the business environment which create a demand for an independent audit. They are Conflict of interest, Consequence, Complexity and Remoteness.

**Conflict of interest:** A company's financial statements are prepared by its directors and these directors are essentially reporting on their own performance. Users of the financial statements want the statements to portray the company's financial performance, position, and cash flows as accurately as possible. However, they perceive that the directors may bias their report so that it reflects favorably on their management of the company's affairs. Thus, it can be seen that there is a potential conflict of interest between the preparers and users of the financial statements. The

auditors play a vital role in helping to ensure that directors provide, and users are confident of receiving information which is a fair representation of the company's financial affairs.

**Consequence:** If users of a company's financial statements base their decisions on unreliable information, they suffer serious financial loss. Therefore, they wish to be assured that the information is reliable and safe to act upon. In this condition, auditor's works add credibility to financial statements and users of them have peace of mind, when audited financial statements are giving the real picture of company (Korma, 2021).

**Complexity:** As the information communicated has become more complex, users of information have found it more difficult, or even impossible, to obtain direct assurance about the quality of the information received. As companies have grown in size, the volume of their transactions has increased. As a result of these changes, errors are more likely to creep into the accounting data and the resulting financial statements. Additionally, with the increasing complexity of transactions, accounting systems and financial statements, users of external financial statements are less able to evaluate the quality of the information for themselves. Therefore, there is a growing need for the financial statements to be examined by an independent qualified auditor, who has the necessary competence and expertise to understand the entity's business, its transactions, and its accounting system (Korma, 2021).

**Remoteness:** Remoteness is caused by the separation of the user of the information and the information source. It prevents the user from directly assessing the quality of the information received. In other words, as a consequence of legal, physical, and economic factors, users of a company's external financial statements are not able to verify for themselves the reliability of the information contained in the financial statements. Although for example, if they are major shareholders in company, they have de facto right of access to the company's books and records (as cited in Salehi, 2010, p. 74).

#### **b) Policeman Theory**

According to this theory, an auditor serves as a police officer, focusing on arithmetic accuracy as well as the prevention and detection of fraud. However, the theory appears to have lost much of its explanatory power due to an inability to describe the shift of auditing to verification of the truth and

fairness of the financial statements' ("Theoretical Issues," n.d.).

**c) The lending Creditability Theory**

This theory holds that the primary function of auditing is to add credibility to financial statements, according to Salehi (2010). Management (agent) uses audited financial statements to increase the principal's trust in the agent's stewardship and reduce information asymmetry.

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information (Ittonen, 2010).

**d) Moderator of Claimants' Theory**

According to this theory, it is critical that all critical participants in an organization continue to contribute. To ensure that these contributions continue, it is critical that each group believes it receives a fair share of the company's income by expressing an opinion on the various interests represented in the amounts shown (Salehi, 2010).

**e) Quasi-Judicial Theory**

According to this theory, the auditor acts as a judge in the financial distribution process (Hayes et al., 1993). Porter concludes, however, that (i) an auditor's decision - making and decision procedure are not publicly available; (ii) the doctrine of precedence/consistency is not guaranteed in auditing; and (iii) an auditor's independence differs from that of a judge due to the different reward system involved (as cited in Salehi, 2010, p. 73).

**f) Theory of Inspired Confidence:**

Limperg's theory addresses both the demand for and the supply of audit services. According to Limperg, the demand for audit services is the direct consequence of the participation of outside

stakeholders in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side), Limperg adopts a normative approach. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations ("Theoretical Issues," n.d.).

## **2.2.4. Responsibilities of Internal Audit & Audit Committee**

### **Consider an Annual Opinion on Internal Control**

Internal audit should be the best source of assurance about internal control for the General Manager and the Chief Financial Officer. If these officers are required to support an entity-wide opinion, it only makes sense that they seek the HIA's opinion. HIA who want to form an entity-wide opinion should look into this study, which goes into greater detail than we can here. The annual audit plan should be based on the control model as the first step. This should not be used in place of a risk-based audit plan. Internal audit activities should always be driven by the organization's major risks. Rather, it should come after the risk assessment to ensure that audit coverage will support an opinion on control for the entire organization. The fundamental steps are as follows:

1. Identify the organization's major risks using the emerging risk assessment process.
2. Determine the audits and other assurance projects that will be needed to address the risks.
3. Determine the objectives and components that will be addressed in these audit projects, as well as the extent to which each will be addressed. Depending on the organization, this may be done informally, by writing project names, or by coding at a more detailed level.
4. Estimate the magnitude of coverage for each cell based on this analysis (e.g., heavy, moderate, light, none)
5. Consider rethinking potential assurance projects. Would the protection be sufficient to support an opinion on internal control at the end of the year, with legitimate audit evidence for each category that falls within the organization's chosen scope? If not, how can the plan be changed to provide the necessary coverage? Several considerations should be made when



conducting this analysis:

The methodology should not take precedence over the risk-based approach. Where there are differences between the two approaches, they should be creatively reconciled. Perhaps the same audit projects, but with different tools and techniques, would suffice. A few lower-risk audits could possibly be replaced. There could also be other options.

Audits that have recently been completed or are scheduled to be completed in the near future can be considered. Nothing has to be covered every year as long as the overall assurance is reasonable.

Some categories will be more important than others for a given organization and at a given time. If the head of internal audit chooses to provide an opinion on all three Objectives, for example, this does not imply allocating one-third of audit time to Operations, one-third to Finance, and one-third to Compliance. It entails providing sufficient coverage to each Objective and Component based on the organization's real-world risks in order to enable the year-end opinion on internal control. Of course, the audit plan evolves throughout the year as risks and audits evolve.

### **Consider Audits of Specific Financial Control Processes**

The audit department may intend to pursue annual audits of specific processes related to financial reporting and disclosure. These processes will differ from one organization to the next. General accounts, inventory, cash, accounts receivable, and cash accounts are some examples. Additionally, Payables, payroll, closing processes, sales, purchases, payment authorizations might be included.

### **Consider the effectiveness of the company's internal control system, including information technology security and control.**

Define the extent of internal and external auditors' reviews of internal control over financial reporting, and obtain reports on major findings and recommendations, as well as management's responses. Examine the charter, plans, activities, staffing, and organizational structure of the internal audit function with management and the chief audit executive: Check for unjustified restrictions or limitations, and review and agree on the appointment, replacement, or dismissal of the chief audit executive (Korma G, 2021).

Examine the efficiency of the internal audit function. Meet separately with the chief audit executive on a regular basis to discuss any issues that the committee or internal audit believes should be discussed privately. In terms of Audit Committees, they are generally responsible for three important areas: financial reporting, corporate governance, and corporate control (Korma G, 2021)

### **Financial Reporting**

The responsibility of audit committees in the area of financial reporting is to provide assurance that financial disclosures made by management reasonably portray the company's:

1) Financial condition; 2) results of operations; and 3) plans and long-term commitments.

The specific steps involved in carrying out this responsibility include: Recommending the independent accountants and Overseeing the external audit coverage, including: Auditor engagement letters, estimated fees, Timing of auditor visits, Coordination with internal auditing, monitoring of audit results, Review of auditor performance, Review of non-audit services, reviewing accounting policies and policy decisions (Korma, 2021).

Examining the financial statement includes: interim financial statements, annual financial statements, auditors' opinion, and management letters, and other reports requiring approval by the board of directors prior to submission to the Securities and Exchange Commission or other government agencies (Korma, 2021).

With respect to the review of accounting policies and policy decisions, a useful approach would be to require from the chief accounting officer a concise summary of all significant accounting policies underlying the financial statements. This summary should be updated as necessary and reviewed by both the independent accountants and the internal auditor (Korma, 2021).

### **Corporate Governance**

The responsibility of audit committees in the area of corporate governance is to provide assurance that the corporation is in reasonable compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against employee conflict of

interest and fraud. The specific steps involved in carrying out this responsibility include:

Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflict of interest, and the investigation of misconduct and fraud, Reviewing current/pending litigation or regulatory proceedings bearing on corporate governance in which the corporation is a party, Reviewing significant cases of employee conflict of interest, misconduct, or fraud, Requiring the internal auditor to report in writing annually the scope of the reviews of corporate governance and any significant findings.

### **Corporate Control**

The responsibility of audit committees for corporate control includes an understanding of the company's key financial reporting risk area and system of internal control. The committee should monitor the control process through internal auditing. "The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." The internal auditing is required to: Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information, Review the systems established to ensure compliance with those policies,

plans, procedures, laws, and regulations which could have a significant impact on operations and reports, Review the means of safeguarding assets and, as appropriate, verify the existence of such assets, Appraise the economy and efficiency with which resources are employed, Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned (Siddiqui, n.d.).

### **2.2.5. Code of Ethics**

According to (The Institute of Internal Auditors, 2012) there are two essential components to the code:

- *Principles* – that are relevant to the profession and practice of internal auditing; and
- *Rules of Conduct* – that describe behavioral norms expected of internal auditors. The

rules are an aid to interpreting the principles into practical application.

**Principles:** (1) Integrity, the integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. (2) Objectivity, Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. (3) Confidentiality, Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. (4) Competency, Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

**Rules of Conduct:**

(1) Sincerity or integrity, Internal auditors shall: perform their work with honesty, diligence, and responsibility; observe the law and make the disclosures required by the law and the Profession; not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization; and respect and contribute to the organization's legitimate and ethical objectives.

(2) Reliability or objectivity

Internal auditors must refrain from engaging in any activity or relationship that could impair or be assumed to impair their unbiased assessment. This participation includes any activities or relationships that may be in conflict with the organization's interests; shall not accept anything that may impair or be presumed to impair there.

**2.2.6. Features of Audit**

While business organizations grew from owner-operated entities to multi-national corporations with thousands of employees, such growth was made possible by diverting financial resources from many thousands of small investors through financial markets and credit issuing institutions, and of the evidence supporting the information contained in those financial statements for shareholders and other interested parties outside the entity. Companies' management has shifted from shareholder-owners to small groups of professional managers as they have grown in size. As

a result, the growing separation of ownership interests and management functions has accompanied company growth ("Theoretical Issues," n.d.).

Those who receive these reports (external financial statements) require assurance that they are trustworthy. They want the information in the reports to be 'checked out' or 'audited.' The audit philosophy currently focuses on expressing a fairness opinion on the reliability of financial statements prepared on the basis of accounting records, which are also subject to verification. As a result, one of the audit's primary goals is to perform a financial statement audit ("Theoretical Issues," n.d.).

It is an examination of an entity's financial statements, which have been prepared by the Audit work consists of two main elements, viz., analytical review and substantive testing. Analytical review is a structural, temporal and cross sectional comparative evaluation of the financial report to assess its overall soundness. Once the auditor has invested the effort to model the firm and its environment, analytical review becomes essentially an armchair exercise. Substantive testing is the direct verification of the resources and obligations of the firm in the field, and requires costly checking of physical plant, inventories, creditors and debtors of the firm. Although the auditors developed sophisticated statistical techniques to design efficient sampling methods to cut these costs during the third quarter of the Twentieth Century, substantive testing consumed the bulk of the auditing budgets. Under the pressure of competition, the auditors shifted their production function from expensive substantive testing towards inexpensive analytical reviews. Greater parts of the audit work are now being carried out without leaving the office, with less time, labor and costs. The fact is that the corporate managers and directors hire the auditors. But the real clients of the auditors, that is, the investors never see the auditors. Even if they see, they are not aware if the auditors have done their job diligently ("Theoretical Issues," n.d.).

### **2.2.7. Prospects for the Internal Auditing Profession**

Organizations today are increasingly information-dependent and knowledge-intensive, and they engage in highly specialized and sophisticated operations across industries and sectors around the world. With the formation of strategic alliances and the emergence of virtual organizations, the development of new organizational forms in the information age has dramatically altered the purpose and functioning of organizations, as well as the attendant needs for exercising control. The

control systems environment within institutions today is very different from that which existed in industrial-era traditional organizations for the majority of the twentieth century. In this drastically altered business environment, the internal audit function has evolved into a critical support function for management, the audit committee, the board of directors, external auditors, and key stakeholders. The internal audit function, when properly designed and implemented, can play a critical role in promoting and supporting effective organizational governance (Ramamoorti, 2003).

### **2.2.8. Factors affecting internal audit**

**Management Support:** In their daily activities, internal auditors have a close relationship with the organization's management. They require strong support and perception from their management in order to be more effective and meet the audit objectives. Management support is expressed in terms of assisting the auditing process by providing the necessary resources, finance, and transportation if necessary, as well as providing training, introducing auditors to new technology and procedures, budgeting funds for certification, and providing other facilities that facilitate internal auditing.

**Management's Perception of IA's Value:** Perception is the process of becoming aware of or comprehending sensory information, or a mental image or intuitive acknowledgement of expertise when one is aware of the elements of one's surroundings (Woodard III, 2002). Internal auditors and audit service customers must share a common understanding of what distinguishes internal auditing as a value-added activity in order to function effectively. Failure to achieve this understanding may lead to the perception that internal audit is merely an impediment to meeting production goals. As a result, audit services may be underutilized and audit recommendations may be ignored (Flesher and Zanzig, 2000), reducing the effectiveness of IA (Arena and Azzone, 2009).

**Organizational Independence:** Independence has no universal meaning or interpretation; thus, the concept is fraught with ambiguity and uncertainty (Wines, 2012). However, for the purposes of this case study, independent refers to being free of any management influence while internal auditors perform audit activities and issue audit reports (Ahmad & Taylor, 2009; Belay, 2007; MoFED, 2004). The independence of auditors is critical to the dependability of their reports. If auditors were not independent in fact and appearance, those reports would be untrustworthy, and investors and creditors would have little faith in them. Auditor assurance services derive their value and credibility from the

fundamental assumptions of mental independence and physical independence (Wines, 2012; Stewart and Subramanian, 2010).

**Adequate and competent Internal Audit Staff:** Adequate staffing is required for a system to operate at peak performance. Staffing deficiencies can result in mismanagement, error, and abuse, negating the effect of other controls (MoFED, 2004). The critical characteristics of IA quality that cannot be separated are the size of IA staff and the competency of internal audit. This means that if one dimension is missing, the other cannot contribute to internal auditor quality.

**The Approved Internal Audit Charter:** The IIA defines an internal audit charter as "a formal written document that defines the activity's purpose, authority, and responsibility." The charter should "(a) establish the position of the internal audit activity within the organization; (b) authorize access to records, personnel, and physical properties relevant to management performance; and (c) define the scope of internal audit activities" (IIA, 2001). Furthermore, an internal audit charter typically includes the IA's broad responsibilities, the standards adhered to by the IA, and the relationship between the IA and the audit committee (as cited in Hailemariam, 2014, p. 14-19).

## **Financial Performance**

The term "performance" comes from the French word "parfourmen," which means "to do," "to carry out," or "to render." It refers to the act of performing; for example, execution, accomplishment, fulfillment, and so on. Performance in the border sense refers to the completion of a given task measured against predefined standards of accuracy, completeness, cost, and speed. In other words, it refers to how far a primary objective is or has been met. (Financial performance, n.d.).

The act of performing financial activity is referred to as financial performance. Financial performance, in a broader sense, refers to the extent to which financial objectives are or have been met. It is the process of calculating the monetary value of the outcomes of a company's policies and operations. It is used to assess a company's overall financial health over time and can also be used to compare similar firms within the same industry or to compare industries or sectors in aggregate (Financial performance, n.d.).

### **2.2.9. Audit of Internal Control over Financial Reporting**

Internal control over financial reporting audits are a type of accreditation service in which the auditor examines management's claim that internal controls were developed and implemented in accordance with very well criteria. The auditor's report boosts user confidence in future financial

reporting because effective internal controls reduce the likelihood of future financial statement misstatements (Mohamed, 2014).

### **2.2.10. Auditing and Assurance Services**

Concerning economic decisions, decision makers like investors, creditors, financial institutions, and analysts rely on financial accounting information. Financial information is useful if it helps users in their decision-making. Financial accounting information provides information on behalf of the user's economic decision-making. Financial reporting furthermore helps investors predict future cash flows. Investors use disclosed and undisclosed information to produce estimates of future cash flows. At last, financial reporting provides information on the company's economic resources, obligations and the effect of economic transactions on the existence of resources and obligations. Because the management is responsible for the financial reporting, a risk exists that the information is inaccurate, the 'information risk'. Information asymmetry causes a need for an independent intermediary, the auditor, to verify and provide assurance of financial accounting reports, prepared by management. The role of the audit is to reinforce trust and confidence in financial reporting. Auditing can be qualified as a social control mechanism in securing the stewardship and the accountability of the agent. The demand for auditing in addition can be attributed to users' needs of reliable information and the consequences of users' erroneous decision when dealing with inaccurate information. To evaluate the quality of financial statements, a thorough understanding of accounting and reporting practices and business processes governance practices is required. Most financial statement users are not enough knowledgeable to fully understand financial reports, neither to detect errors. The auditor is hired to provide users an assessment of the quality of the information (Mohamed, 2014).

### **2.3. Internal Auditors in Airlines Industry**

Although not unique to the airline industry, an internal audit group may be an integral factor to be considered by the auditor in his evaluation of internal control. Although internal auditors are not part of internal accounting control in the same manner as an individual who checks the mathematical accuracy of all invoices, they act as a separate, higher level of control to determine that the system is functioning effectively. The control aspects of the internal audit function are of special importance, particularly to airlines with numerous airport (station) locations and city ticket offices, because in many cases the airline's internal audit group may conduct audits of



stations on a regular basis (AICPA, 1988).

The independent auditor should review the internal auditors' activities before establishing his audit plan. While smaller carriers with a limited number of station locations may not have an internal audit function, the cost/benefit relationship of an effective internal audit function should be considered. As part of his examination, the independent auditor should develop and maintain an awareness of the internal audit department's activities, since its work can have an important bearing on the assessment of internal control and on the nature, timing, and extent of audit procedures (AICPA, 1988).

### **2.3.1. Electronic Data Processing**

Because of the volume and complexity of transactions associated with airline operations, the auditor can expect to encounter the use of EDP equipment, ranging from smaller carriers' limited use through service bureaus to extensive use of sophisticated EDP applications with a variety of equipment types. Airlines may use batch processing systems, on-line systems, or minicomputers.

The types of applications that the auditor may encounter in the airline industry include: On-line information systems that may allow third-party access to the system, Sales audit applications; including matching of passenger tickets lifted with tickets sold, testing of fare computations and any applicable commissions, and segregating and billing of interline transactions, Inventory systems to control and segregate ratable and expend-able parts, Revenue applications utilizing sophisticated statistical sampling techniques to determine earned revenue, Payroll applications to effectively control and prepare complex flight payrolls.

The objectives and characteristics of internal accounting control do not change with the method by which data are processed, and the objectives of the auditor's review of internal accounting control are the same whether or not EDP is used. Attention is directed to the AICPA audit and accounting guide entitled (AICPA, 1988).

## **2.4. Empirical Review**

It's obvious that there are prior studies conducted in different countries which are related to the topic/problem of this study. In order to show the research gap and justify the importance of this study the following section presents review of the empirical evidence that have examined Internal Audit and Financial Performance of Airlines, but I couldn't get similar cases study related to my thesis.

A study made by Boru (2014) examined profitability Analysis of Ethiopian Airlines from 2009 to 2012 with a study question of “Why net profit of Ethiopian airlines kept declining despite an increase of revenue?” The study focused on targeting to accomplish three main objectives.

Mohamed (2014) had conducted research on the internal audit in private domestic airlines comparative insights of internal audit in airline industry. This Research was primarily concerned with exploring IAS in domestic airline companies the case of AAS and NA in Tanzania. The motive was to provide comparative empirical support for policy formulation, implementation and rectification with regard to the effectiveness and challenges of IAS whilst contributing to the limited body of knowledge on auditing in airline business in Tanzania perspective and Africa in general.

Ondieki (2013) tried to establish the effect of internal audit on financial performance of commercial banks in Kenya and concludes that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets.

Asamu (2019) examined the impacts of internal control on financial performance in Nigeria airline industry. Airline was chosen due to the important role they play in increasing the level of fiscal activity. The aim and target of his research is to resolve whether internal control and its machineries has effect on the financial performance of Nigerian Airline Industry in checking fraud and fraudulent activities in the industry. The results of the empirical findings showed that internal control and its machineries have significant impacts on financial performance in airline industry.

Alahyari (2014) tries to establish a comparison of the Turkish airlines with their profitability.

The main aim of this study is to investigate the determinants of profitability for the Turkish airlines. Accordingly, a sample of major airlines is chosen, and their data is extracted from Data Stream covering 1994 to 2013. Findings show that tangibility of assets, growth opportunities and liquidity ratios have significant impacts on the profitability of the firms.

Oscar (2019) tried to assess' internal audit practice and financial performance of banks in Tanzania, where the case study was CRDB bank. From the finding there is a very high extent that there is a positive relationship between internal audit quality and financial performance (Korma, 2021).

#### **2.4.1. Knowledge gap of the studies**

Boru (2014) and Alahyari (2014) studies were focused on the comparative Financial performance analysis of different Airlines. Because of their studies limited only on the financial performance of the Airlines they cannot emphasis the assessment of internal audit practice particularly what I am studding, Ethiopian airline. Mohamed (2014) and Salih (1983) and Asamu (2019) evaluated the internal controls over privet Airlines in Tanzania, Nigeria airline industry and Ethiopian Airlines Nairobi Branch respectively. Both were focused on evaluating the Internal Audit and Control over the Airlines but same researchers were done before seven years and may not show the current actual practice. Oscar (2019) tried to asses' internal audit practice and financial performance of banks in Tanzania, where the case study was done on banks and my study will be in airlines industry, Ondieki (2013) examined the impacts of Internal Audit on financial performance of Commercial bank. However, the researcher made his research on the impact of Internal Audit on financial performance there is a limitation to address different Industries(Korma,2021).

Considering the above gaps and believing the importance of the topic to be studied and to achieve the reliable findings and the absence of research regarding the title of the study especially impact of Internal Audit practice of Ethiopian Airlines group.

The majority of research was focused on studying only either of Internal Audit or Financial performance of the airlines and as to the best of the researcher knowledge this research will be different from all the above mentioned as it will specifically look at assessment of internal audit practice in Ethiopian Airlines group.

Most importantly, internal audit strength is essential to meet its desired objective and determining whether it is doing its job. If the system is functioning independently with full force and management is using it as an essential element, it matters a lot; thus, the study also focuses on evaluating the system in terms of structure plausibility, manpower capacity, input availability, and management support(Korma,2021).

### 2.5. Conceptual Framework

The conceptual framework is a graphical representation of the variables under consideration. In other words, the framework describes how the variables interact with one another. The conceptual framework for this study is depicted in Figure 2.1

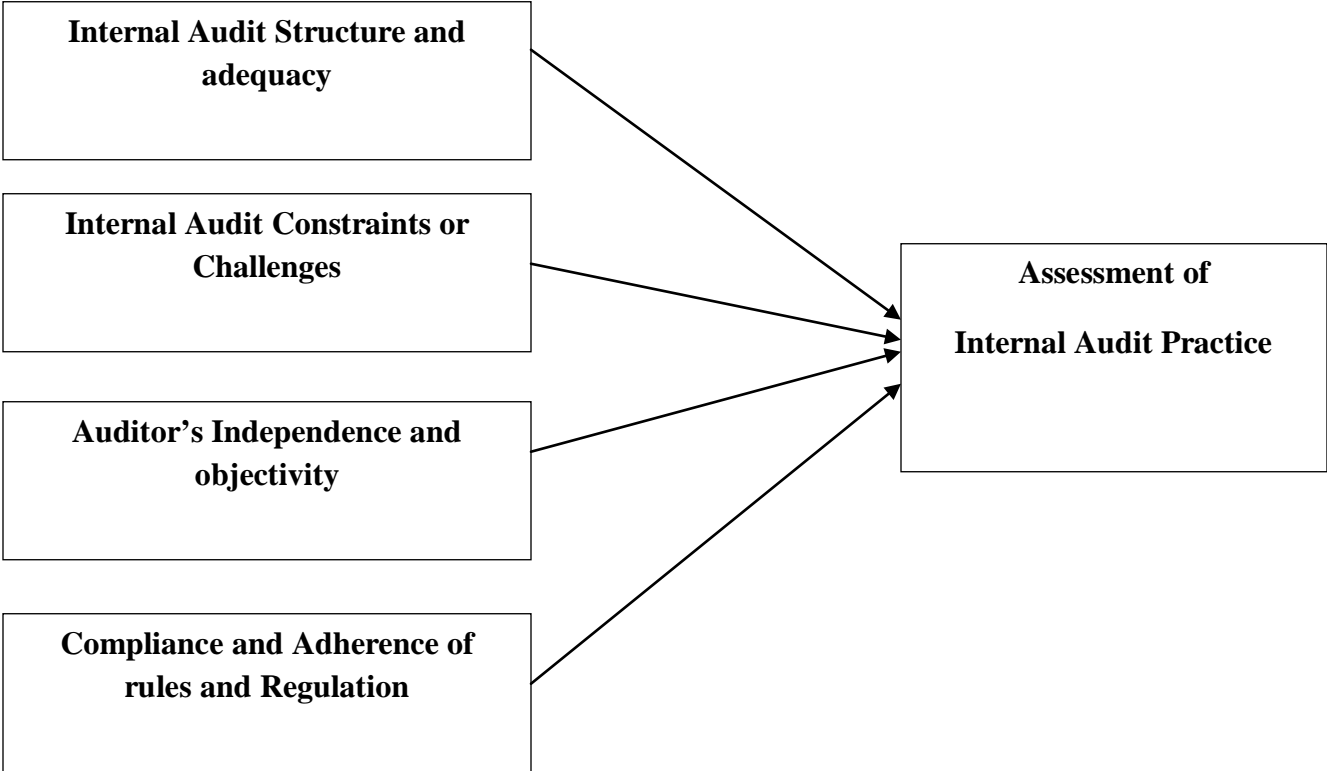


Figure 2. 1 Conceptual framework

### 2.6 Conclusion

The purpose of the literature review was to cover up and gain adequate and valuable insights on all issues concerning the research topic and pertaining objectives for addressing the research problem.

The researcher identified gaps in the literature to avoid duplication of work, gain clarity and a better understanding of the topic, assisted in delimiting the research problem, and proved useful in developing a foundation for analyzing and interpreting the data.

## **CHAPTER THREE**

### **2. RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Introduction**

This chapter discusses the study's methodology and highlights the research design, population to be sampled, sampling technique, data collection instruments, data analysis and presentation.

#### **3.2. Study Area**

The study is being conducted at Ethiopian Airlines' headquarters in Addis Abeba Bole International Airport.

#### **3.3. Research Approach**

A research approach is a method for solving a research problem in a systematic manner. It can be thought of as a science that studies how scientific research is conducted (Kothari, C. 2004). It is assumed that there is a logical sequence that the researcher must follow to achieve a specific predetermined result (Jonker, J. and Pennink, B. 2010). There are two approaches to research: qualitative research and quantitative research. Qualitative research allows the researcher to become acquainted with the problem or concept under investigation. Quantitative research aims to quantify the collected data so that it can be analyzed and a final course of action can be determined. Qualitative research is not based on statistics and focuses on developing an initial understanding from the research. Qualitative research, primarily as an exploratory design but also as a descriptive design, plays an important role in decision-making. As a result, in order to gain a better understanding of this study, the researcher have been employed qualitative research methods such as questionnaires and interviews.

#### **3.4. Research Design**

Research designs are research plans and procedures that range from broad assumptions to detailed data collection and analysis methods (Creswell, 2009). The purpose of research design is to collect relevant evidence with the least amount of effort, time, and money (Kothari, 2004). Descriptive

research would have been used to describe a phenomenon by identifying and obtaining information on the characteristics of a specific issue. According to (Kohtari, 2004), the prime objective of descriptive research is to describe the current state of affairs. As a result, the descriptive survey research design would have been used to evaluate internal audit practice, allowing the study to explore a broader range of factors and answer the basic questions specified in the problem statement.

### **3.5. Population of the study**

A population is any comprehensive group of people who share a set of characteristics. The study's population comprised of all 58 permanent employees of Ethiopian Airlines in the internal audit department.

### **3.6. Sampling Design and Technique**

"A sample design is a specific plan for extracting a sample from a given population" (Kotarri, 2004). Because there are many constraints, such as time and budget, to including the entire population in the study, a sample from the entire population is required. In order to obtain representative data for this study, a required sample size is used.

The research study used Slovin's formula statistics Canada (2010), as cited by (James, 2012), to calculate the sample size at a 95% confidence level, a degree of variability of 0.5, and a level of precision/sampling error of 5%.

$$n=N/(1+Ne^2)$$

$$n=58/(1+58(0.05)^2) \quad n=50$$

Where "n" denotes the sample size, "N" the population size, and "e" the level of precision (sampling Error). Using the above formula, 50 employees are chosen as a sample to participate in the study from a total study population of 58 participants. Because the employees were homogeneous, the study employed a judgmental or purposive sampling technique.

### **3.7. Data Sources and Types**

To evaluate Ethiopian Airlines' internal audit practice, the researcher to collect data from existing employees, finance management staff, and various airline documents such as audit reports, email correspondence with the audit department and auditee section and others. There are several methods for gathering information in research, all of which fall into two categories: primary data and secondary data (Douglas, 2015). The researcher gathered information from both primary and secondary sources. A questionnaire consists of a set of questions that must be answered by survey participants. In a questionnaire, respondents read each question, interpret what is expected, and then write down their responses (Kumar, 2011, Korma, 2021).

To prevent confusions in the source of primary data obtained via questionnaire, closed-ended and open-ended questions would be used to allow respondents to provide information. Due to recent outbreak Pandemic disease, this would be administered via the organization email and telephone as situations where meeting the people surveyed face to face was not possible but the only way is through these means.

The research method used in this study is qualitative. The qualitative research approach is appropriate for the study because the goal is to evaluate internal audit practice.

### **3.8. Data Collection Methods**

The gathering of specific information to serve or prove some facts is referred to as data collection. The instruments to be used, as well as the respondents, must be clearly defined by the researcher., and the chosen area when gathering data. Data will be gathered through the use of a questioner, an interview, and document review. The airlines internal audit employees would have been polled via a questionnaire. Furthermore, the researcher used an unstructured interview with the Audit Manager to collect data. In terms of secondary data collection, the researcher referred to various reports, books, journals, articles, web sites, and other research with similar or related topics that had previously been conducted and were relevant to the study.



### **3.9. Data Analysis**

To achieve the study's stated goal, a simple descriptive data analysis method was used, which involved converting questionnaire responses to percentage and number. The structured interview data was analyzed using factual descriptions. Tables were used to display the results of the analyses.

### **3.10. Validity of data**

The degree to which a question measures what it is intended to measure is referred to as its validity. To ensure the study's validity, the researcher conferred with the advisory about the questioner before distributing it.

### **3.11. Ethical Implications**

During the research proposal preparation, seeking access to individuals and organizations, data gathering, data processing, and documentation, an ethical issue was a big issue. The confidentiality and privacy of both data and respondents were carefully considered and respected; no individual names were revealed in this report, and respondents were required to give their full consent to participate in the study. Respondent anonymity will also ensure that the questionnaires are correctly filled out. The findings were reported accurately and honestly to avoid abusing public trust in opinion and research (Korma, 2021).

## CHAPTER FOUR

### 4. RESULTS AND DATA ANALYSIS

#### 4.1. Introduction

The overall aim of this study was to look into the internal audit practices of the Ethiopian Airlines Group. The study focused on how the internal audit function operates and functions within the context of the company's internal structure, changes to the unit, the level of independence of the internal audit function, and compliance with the company's, country's, and worldwide rules and regulations of the Ethiopian Airlines Group. The goal of this chapter is to present, analyze, interpret, and discuss the data gathered during the study.

#### 4.2. Response rate

The planned questioner for this specific study was distributed to 50 ETAG head office respondents. Four out of the total number of questionnaires were not submitted or were filled out incorrectly. The researcher excluded four of the questioners and used only 46 of the responses from respondents.

##### 4.2.1. Demographic Characteristics of the Respondents

###### 4.2.1.1. Gender of the respondents

The researcher wanted to know the gender of the respondents, so they were asked to indicate their gender. According to the study, the majority of respondents (52.8 percent) were females, while 47.2 percent were males. This indicates that both genders were involved in the research. The study concluded that there is no gender bias based on the total number of respondents.

**Table 1: Gender of respondents**

Frequency		Valid Percent	Cumulative Percent
Valid	M	24	52.8
	F	22	47.20
	Total	46	100.0

Source: Questionnaire results analysis by SPSS (2022).

#### 4.2.1.2. Age of respondents

The researcher requested respondents to indicate their age brackets in the organization and found that the sample population is largely dominated by youngsters. From the total population 58.7 % of the respondents were aged between 20-30, 26.1% of the employees were between 30 and 40 years old. And 10.90% of employees are between 40 to 50 years old and two employees or 4.3% of the respondents were older than 50 years. There is no respondent below 20 years old in this specific questioner.

**Table 2: Age of respondents**

Frequency			Valid Percent	Cumulative Percent
Valid	below 20	0	0	0
	20-30	27	58.7	58.7
	30-40	12	26.1	84.8
	40-50	5	10.9	95.7
	> 50	2	4.3	100
		46	100	

Source: Questionnaire results analysis by SPSS (2022).

#### 4.2.1.3. Position of Respondents

The researcher respondents were asked to indicate their position in the organization and discovered that internal auditors account for 91.3 percent of the sample population, with internal auditor managers accounting for the remaining 8.7 percent. This means that there are more than ten employees under one manager, and it is fair to manage the employees effectively.

**Table 3: Position status**

Frequency			Valid Percent	Cumulative Percent
Valid	IAM	4	8.7	8.7
	I.A	42	91.3	100.00
	Total	46	100.0	

Source: Questionnaire results analysis by SPSS (2022).

#### 4.2.1.4. Experience of respondents

The researcher asked the respondents to state the number of years they had worked for Ethiopian Airlines Group as of the date of the question, as well as the study's analysis, revealed that 26.1% of the employees' have less than five years' experience, 52.2% of the respondents have between 5 to 10 years of experience and 13% of the employees have served the company between 10 and 15 years and the remaining 8.7% of the employees are served the company more than 15 years. The analysis showed that the majority of the employees have an experience of 5-10 years. As of this research period the experience combination is good but it needs some improvement for holding of experienced employees.

**Table 4: Experience Profile**

Frequency		Valid Percent	Cumulative Percent
Valid	=Less than 5 Years	12	26.1
	=>5 Years Less than 10	24	52.2
	=>10 Years Less than 15 Years	6	13.0
	=>15 years	4	8.7
	Total	46	100.0

Source: Questionnaire results analysis by SPSS (2022).

#### 4.2.1.5. Academic qualification

The study also collected educational background of the respondents and from this specific data collection, 4.3% of the respondents were diploma holders, 76.10% of the respondents were degree holders and the remaining 19.6% of the respondents were masters or 2<sup>nd</sup> degree holders. In this table we can conclude that the majority of the respondents are first degree holders. In the researcher's point of view, we can conclude that the academic qualification of the employees is enough to run the business effectively.

**Table 5: Academic Qualification Profile**

Frequency		Valid Percent	Cumulative Percent
Valid	Diploma	2	4.3
	Degree	35	76.1
	Masters	9	19.6
	Total	46	100.0

Source: Questionnaire results analysis by SPSS (2022)

**4.2.1.6. Related Certification of Respondents**

Among the whole respondents only two of them have ACCA holder which accounts 4.35%, the remaining 95.65% do not have related certification. This indicates that the department lacks qualified and certified auditors. In this dynamic and digital world, qualified and certified auditors should require for internal audit and the company should increase number of qualified and certified employees to avoid potential gap.

**Table 6: Related certificate of the respondents**

Frequency		Valid Percent	Cumulative Percent
Valid	NRC	44	95.65
	ACC	2	4.35
	Total	46	100.0

Source: Questionnaire results analysis by SPSS (2022).

**4.3. Reliability Analysis**

The reliability analysis is critical in reflecting the overall reliability of the constructs that it is measuring in order to measure the consistency of the questionnaire, particularly the Likert-type scale. Cronbachs Alpha ( ) is the most commonly used measure of scale reliability in reliability analysis, and a value greater than 0.700 is considered very acceptable (Field, 2009; Cohen and Sayag,2010).

According to the table below, the reliability analysis result of all variables revealed is 0.821, indicating that the contributory factors for all variables used in the study were reliable enough for data analysis.

**Table 7: Reliability analysis**

Cronbach's Alpha	N of Items
0.821	6

Source: SPSS reliability statistics analysis (2022)

**4.4. Statements about the firm's corporate internal audit structure**

The nine questions (Q1A-Q1I) below were distributed and used to analyze the company's overall internal audit structure. The findings were analysed in the table below.

Q1A. The internal audit function is big enough to carry out its responsibilities effectively.

Q1B. Internal audit obtains a sufficient budget to successfully carry out its duties.

Q1C. Internal auditors have enough experience to understand the organization's systems.

Q1D. Internal audit staffs have knowledge and skills in a variety of areas (other than accounting and finance), as needed.

Q1E. Internal audit has policies in place for training internal audit staff Q1F. Internal auditors participate in ongoing professional development (such as professional association sponsored programs and correspondence courses)

Q1G. Every year, adequate short-term training for internal auditors is arranged.

Q1H. Internal audit conducts end-to-end/corporate-wide audit activities to obtain a comprehensive picture.

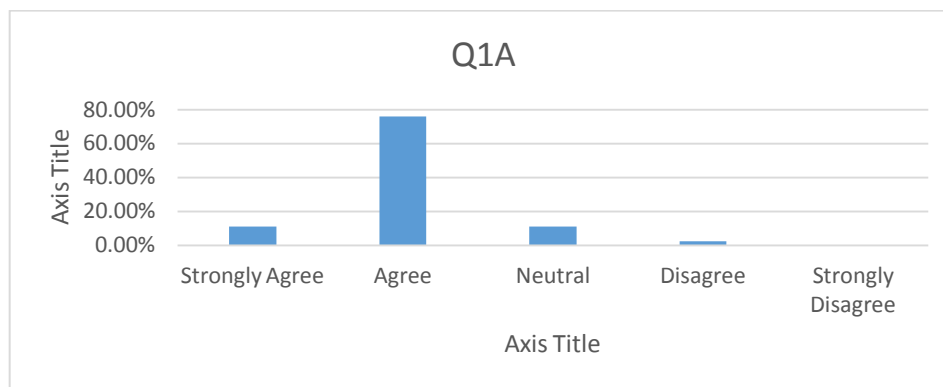
Q1I. There is a comprehensive internal audit manual to guide internal audit task.

**Table 8: Descriptive Statistical table for structure of the company**

		Q1A	Q1B	Q1C	Q1D	Q1D	Q1F	Q1G	Q1H	Q1I
N	Valid	46	46	46	46	46	46	46	46	46
	Missing	0	0	0	0	0	0	0	0	0
Mean		3.96	3.86	3.67	3.45	4.35	3.35	3.83	4.22	4.52
Median		4.00	3.00	3.00	3.00	2.50	3.50	3.00	3.00	3.50
Mode		4	4	4	4	4	4	3	4	4
Std. Deviation		.556	.778	.896	.912	.566	.924	1.122	.941	.623

Source: Survey result and SPSS 2022

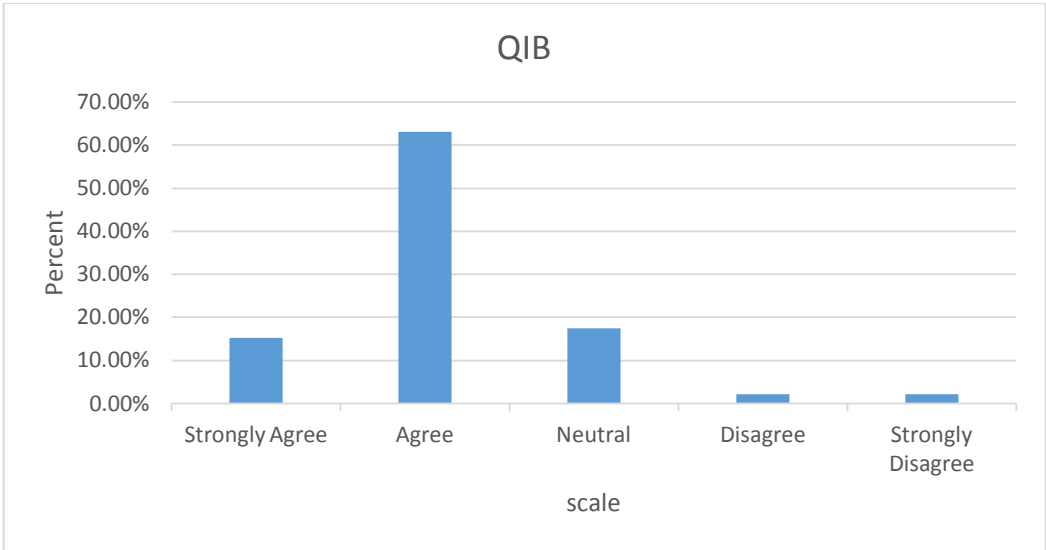
As shown in Figure 1, most of the respondents agreed with the existence of well-structured unit to successfully carry out the company’s duties and responsibilities which comprise of 10.87% of participants are strongly agree and 76.09% of the respondents were agreed. 10.80% of the respondents were neutral neither of agreement nor disagreement and the remaining 2.17% of the respondents were disagreed. The mean rate of the respondents on this regard was 3.96. the standard deviation of the respondents is .556 and this indicates that the company is well structured and adequate to carry out internal audit duties and responsibilities.



**Figure 2: Structure of the company to carry out duties**

As per figure 2 of this analysis, 15.22% of the respondents were strongly agreed on adequacy of sufficient budget, 63.04% of the respondents were agreed on the budget availability. From the total respondents 17.33% percent of the respondents were reluctant to give their agreement or same were neutral. 4.37% of the respondents were disagree of sufficient budget allocation of the company. The

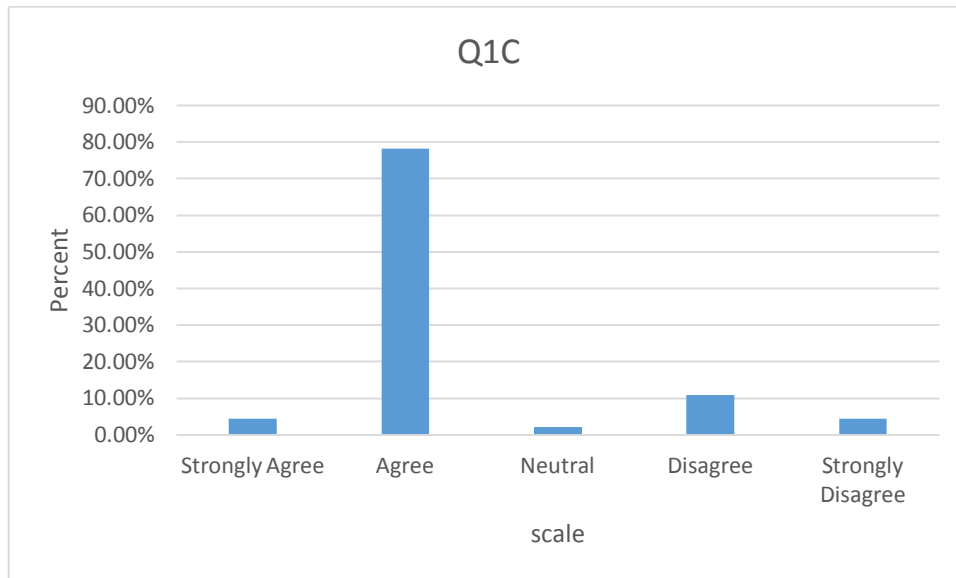
mean and standard deviation of the respondents were 3.86 and .778 respectively. This indicates that 78.26% of the respondents were agreed on the sufficient allotment of budget in the internal audit department. Thus we can conclude that there is sufficient budget in the internal audit to effectively operate the audit activities of the company. The reason for the existence of sufficient budget allotment is that as the company is international company and operating by its own flexible budget without government financing.



**Figure 3: Sufficiency of the internal audit budget to carry of the duties**

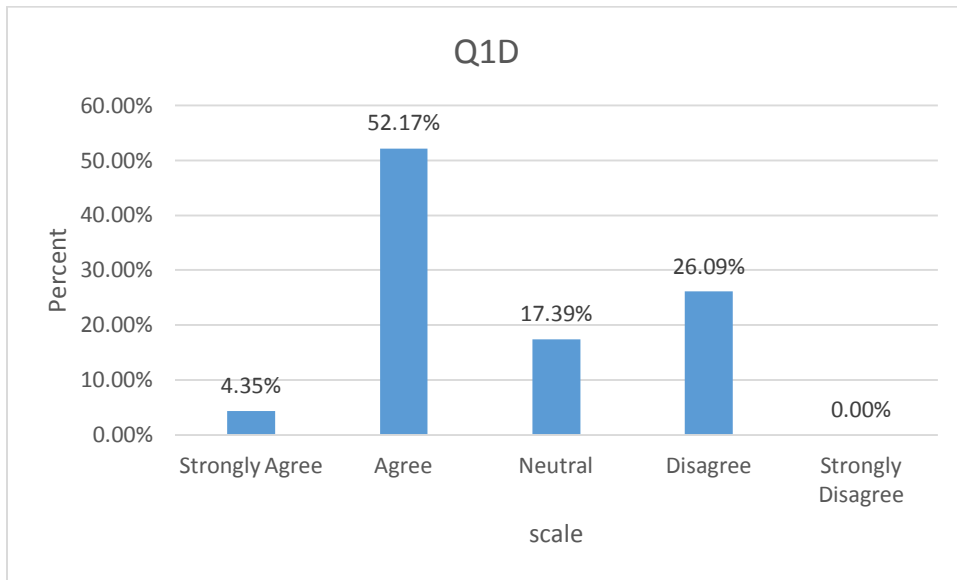
As reference to table 9 and below Figure 3, 82.61 % of The majority of respondents agree with the provision and presence of an experience sharing system set up by the internal audit department to assist auditors in flowing their ideas, education - learning, and thoroughly explaining the auditing issues they encounter by bringing up numerous cases and providing a solution. This process is being guided by the company's extensive briefing and coaching programs. The graph below depicts their trend. 78.26% of respondents believe that internal audit staffs have sufficient expertise to know the organization's systems. The average value for this questioner was 3.67, indicating that the majority of respondents agree that the internal auditor has sufficient knowledge, skill and experience to be comfortable with the airline's system and other processes.





**Figure 4: Experience of internal auditors in understanding the org. system**

Figure 4 indicated that 56.62% of the respondents were agreed on the availability of continuous development programs across the program. 17.39% of the respondents were neutral on this response that means neither agreed nor disagreed. 26.09% of the respondents were disagreed on the availability of continues development programs. Even though most of the respondents were agreed on the availability of the program, almost 43% of the respondents were neutral and disagreed on this existence of the program. The mean rate of this questionnaire is 3.45 and this shows the company should improve and avail required continuous program to the company auditors.



**Figure 5: Continues development program of internal audit staff**

#### **4.5. Statement regarding challenges facing the internal audit system**

The five questions (Q2A-QE) below were used to analyze internal audit practice in order to avoid challenges to the internal auditing process.

Q2A. Audit is regarded as a valuable commodity and a necessity within the company, rather than merely a legal requirement.

Q2B. Multiple stakeholders' expectations on delivering additional values may differ at the same time.

Q2C. It is difficult to find the "right talent."

Q2D. A greater emphasis should be placed on matching the skills of internal audit personnel with the needs and demands of an organization.

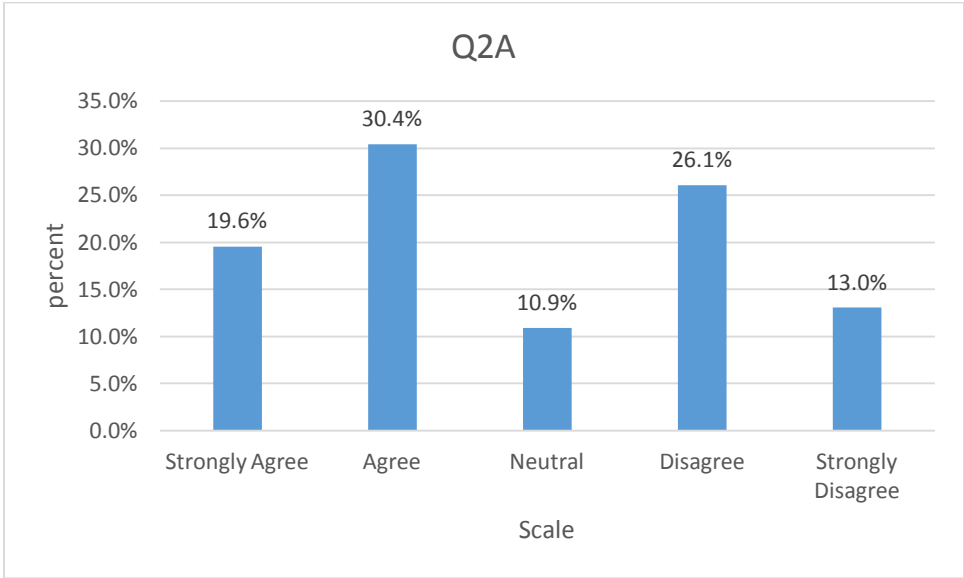
Q2E. Internal audit needs to do a better job of leveraging technology, including data analytics.

**Table 9: Descriptive Statistics on challenges of internal audit system**

		Q2A	Q2B	Q2C	Q2D	Q2E
N	Valid	46	46	46	46	46
	Missing	0	0	0	0	0
Mean		3.17	4.02	4.06	4.32	4.45
Median		3.50	4.00	4.00	5	5
Mode		4	4	4	5	5
Std. Deviation		1.371	1.043	.854	.944	.721

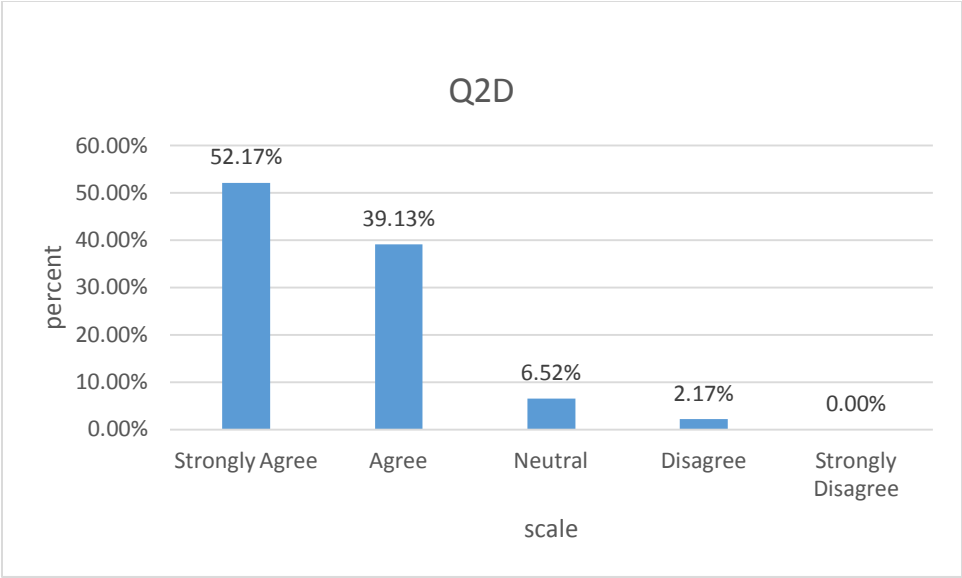
Source: Questionnaire results analysis by SPSS (2022).

As indicated below Figure, 50% of the respondents agreed to that internal audit is viewed as value adding commodity and 39.13% of the respondents believe that internal audit is considered as legal requirement. 10.9% of the respondents were neutral or their reply was neither necessity nor legal requirement. Thus, as per the respondents result we can conclude that the internal audit department is created for value adding or necessity to the company. But as per proclamation No.847/2014 of FDRE internal audit department is requirement as a legal tool for corporations and government holding development agencies.



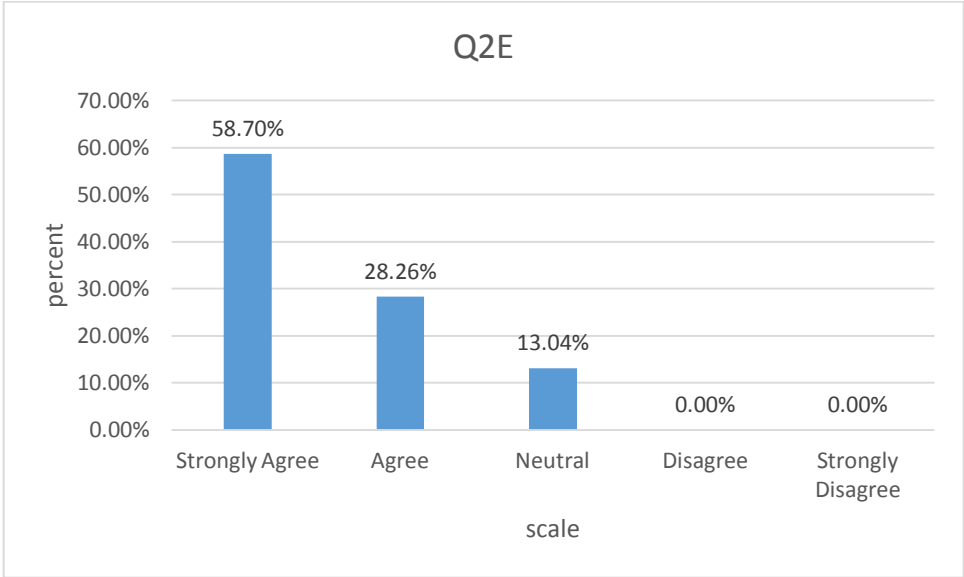
**Figure 6: Internal audit view as commodity rather than legal requirement**

Figure 6 indicated that 91.40% of the respondents were agreed on the need for employee skill matching with the company demands. Only below 10% of the respondents were neutral and disagreed on the skill matching with company demand. The figure also indicates that most of the respondents agreed to this statement with mean score of 4.33. The study revealed that there is a need for greater focus on employee skills for the company`s demand needs



**Figure 7: Matching of internal auditor’s skill with company demands**

Figure 7 indicated that 58.70% of the respondents were strongly agreed on leveraging better system and 28.26% of the respondents were agreed on the better enhancement of technology on the internal audit system. The remaining 13.04% of the respondents were neutral. Thus, most of the respondents agreed that the internal audit is not employing latest technology to leverage efficiency in operation. We recommended the internal audit department to commence latest technology to avoid potential associated risks.



**Figure 8: The need to do better job for leveraging technology**

**4.6. Internal Audit Independence and Objectivity Statements**

The seven questions (Q3A-QG) below were used to analyze the practice of internal audit independence and objectivity in relation to the company's management.

Q3A. Internal audit is free of interference in carrying out its duties.

Q3B. Internal auditors have complete freedom to include any audit findings in their audit reports.

Q3C. The board of directors receives reports from internal audit (or audit committee)

Q3D. The audit committee is overseen by the board of directors.

Q3E. Internal auditors are not delegated to audit system design areas in which they participated

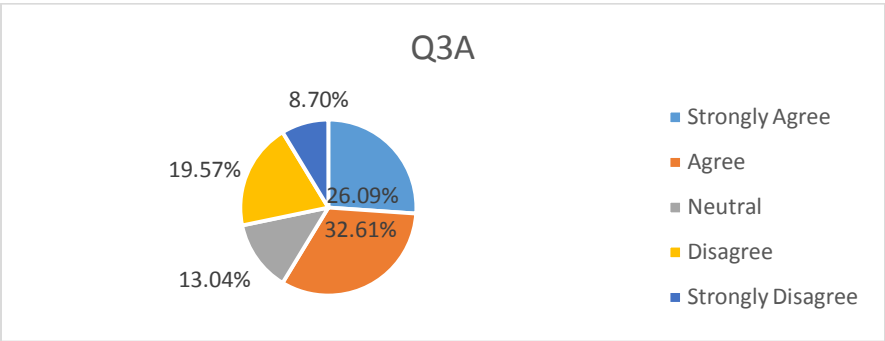
Q3F. Internal auditors do not take part in audits of activities for which they were responsible.

**Table 10: Independence and objectivity Descriptive Statistics**

		Q3A	Q3B	Q3C	Q3D	Q3E	Q3F	Q3G
N	Valid	46	46	46	46	46	46	46
	Mean	3.47	2.52	2.39	3.82	3.93	2.56	4.19
	Median	4	2	2	4	4	2	4
	Mode	4	2	1	4	4	2	4
	Std. Deviation	1.31	1.09	1.20	.99	.85	1.11	.83

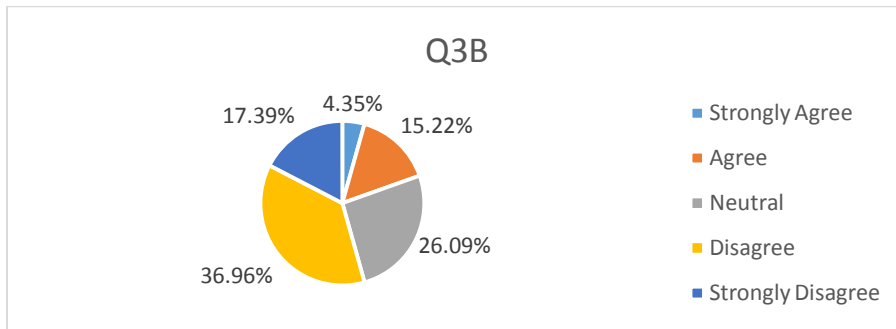
Source: Questionnaire results analysis by SPSS (2022).

The chart indicates that 58.70% of the respondents agreed on the independence of internal auditors while carrying out their duties without any intervention from internal management or board of management .13.04% of their respondents were neutral that means neither agreed nor disagreed on the intervention of management against audit duties. About 28.27% of the respondents were disagreed on the management intervention. Thus, as most of the respondents agreed on this specific questionnaire we can conclude that the internal auditors are handling their duties without management intervention.



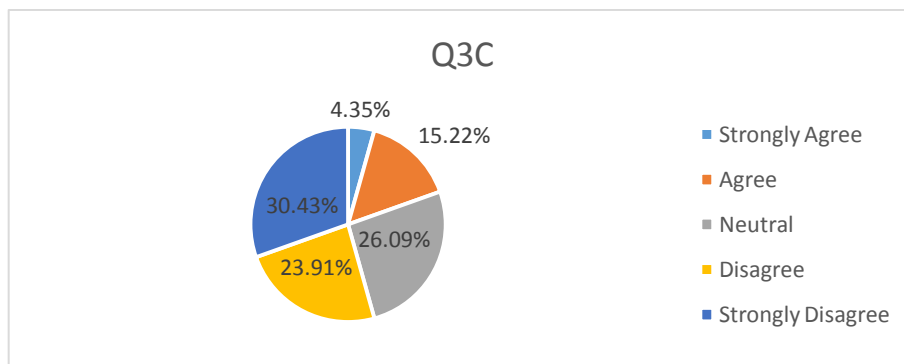
**Chart 1: Independence of auditors**

As per below chart 2 54.35% of the respondents were disagreed on the freedom of internal auditors to disclose any audit findings.26.09% of the respondents were natural that means neither agreed nor disagreed and the remaining 19.57% of the respondents were agreed on the auditor’s freedom on audit finding disclosure. The mean value of the statement Internal auditor’s freedom to include any audit findings in their audit reports was 2.52. This indicated that internal auditors were not free to present any findings before the management approved it. The researcher recommended on this regard that the management should not convince the internal auditors report unless there is an error on formats, wording and so on.



**Chart 2: Auditors freedom on writing any audit report findings**

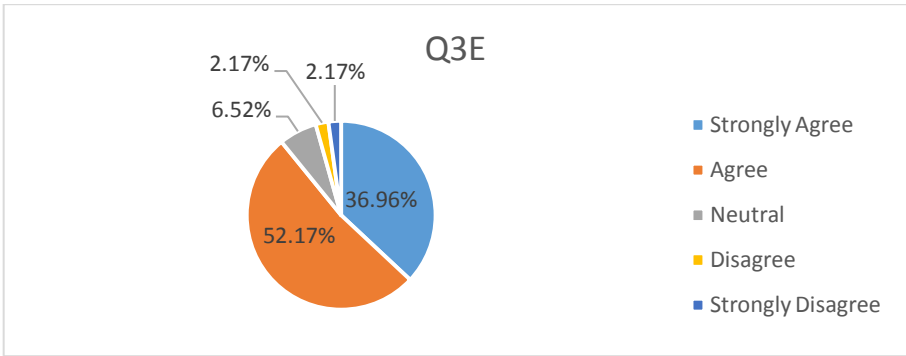
The chart indicates that 30.43% and 23.91% of respondents were strongly disagreed and disagreed on the delivery of internal audit reports to board of managements, respectively. 26.09% of the respondents were neutral on this regard. 19.57% of the respondents were agreed on the delivery of reports to the board of directors. The mean value of this specific questioners was 2.39. thus as the majority of the respondents were disagreed on the delivery of the reports we can conclude that there is no direct delivery internal auditors report to the board of managements.



**Chart 3: Delivery of audit reports to the board of management**

Chart 4 indicates that 36.96% of the respondents were strongly agreed on the availability of periodic shift or change internal auditor's assignment. 52.17% of the respondents were agreed on the availability of the assignment shift and 6.52% of the respondents were neutral and the remaining 4.34% of the respondents were disagreed on this regard. Thus, we can conclude that there is period assignment shift over the auditors and this is good to increase the knowledge of internal auditor over the company system and would increase auditors satisfaction by avoiding reputation of works

throughout long period.



**Chart 4: Internal audit assignment rotation**

**4.7. Compliance of rules and regulations related statements**

The seven questions (Q4A-QC) below were used to assess internal audit compliance against a set of rules and regulations.

Q4A. How do you rate the contribution of internal auditors on the employee’s action in compliance with the policies?

Q4B. How do you rate the contribution of internal auditors’ control over action that deviate from law and regulation?

Q4C. How do you rate audit closer time with the given company policies and procedures?

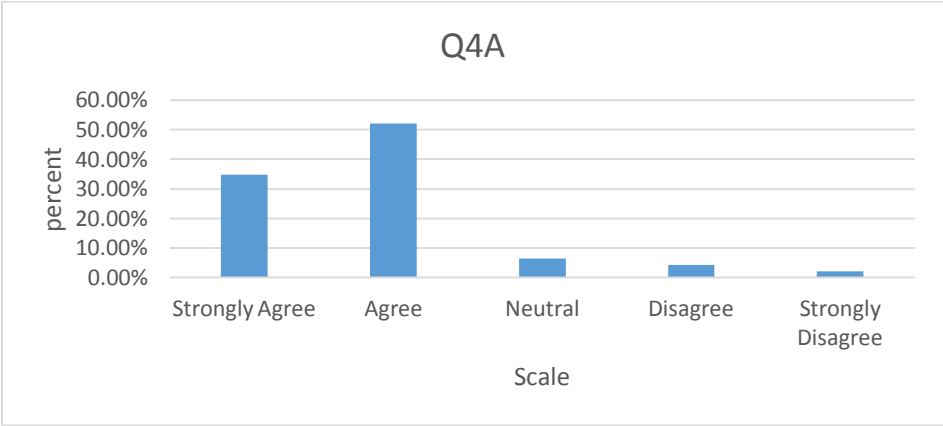
**Table 11: Descriptive Statistics on degree compliance over rules and regulations**

		Q3A	Q3B	Q3C
N	Valid	46	46	46
	Mean	4.13	4.19	2.37
	Median	4	4	2
	Mode	4	4	2
	Std. Deviation	.88	.65	1.16

Source: Questionnaire results analysis by SPSS (2022).

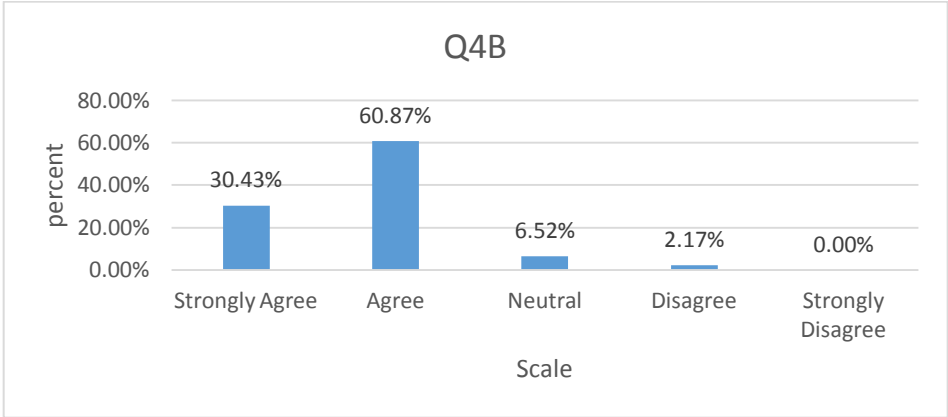


As the graph indicates, most of the respondents replied that they had a firm believe that contributed more to the company’s internal policy compliance. Over 80% of the respondents agreed their positive contribution for keeping policy compliance against standards and set of policies. The mean value of internal auditor’s contribution for the compliance of polices is 4.13 and this is good indicator. As over all we can conclude that the internal auditors are a pivotal role to keep the compliance of company policy. This positive contribution of the auditors might be raised from the company`s paperless procedures and policies which are already found on the company portal and easy for auditors to the access and see the compliance.



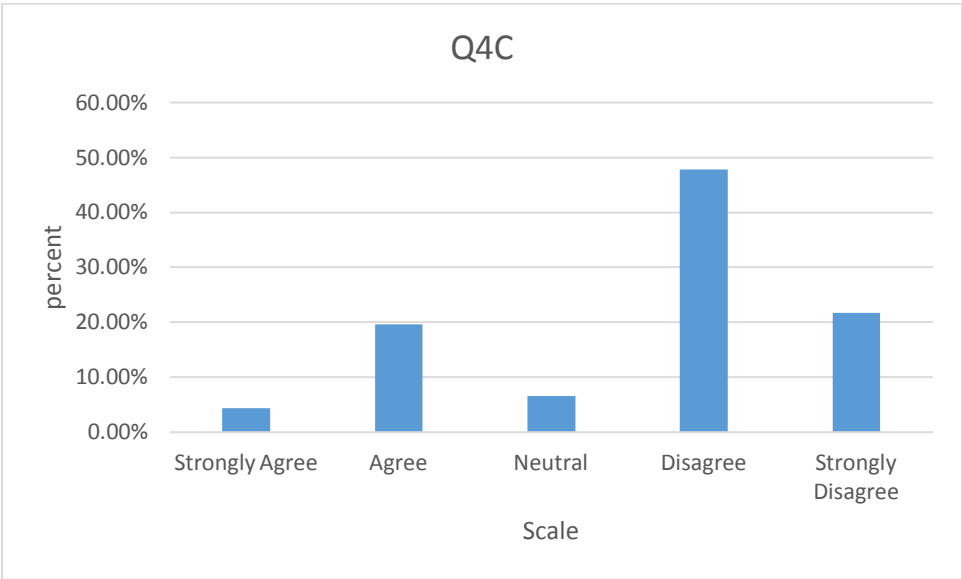
**Figure 9: Contribution of internal auditors on the compliance of polices**

The graph indicated that s that 30.43% and 60.87% of the respondents were strongly agreed and agreed on their effort of keeping their role to undeviating the policy of the company. Apart from the respondents who were neutral only 2.17% of the respondents were disagreed on this specific questioner. The mean value given by the respondents for this item was 4.19 which a is good indicator for the avoidance of deviations. Thus the internal auditors are playing a good role to keep the standard works of the company to not deviate from the policy of the company



**Figure 10: Internal auditors' contribution to policy deviation control**

As the figure indicates, 69.57% of the respondents agreed that audit finding is not closed as per the company polices response time. 23.91% of the respondents agreed that audit findings were replied and closed by agreed time frame that depicted in the company policies and standard procedure. But in general, the audit findings found by the internal auditors were not closed on time. The mean value of audit closure time is 2.37 and it is below the standard. I recommended that the company should improve timely closure of the audit reports or should revise the internal audit policy to extend audit closure time.



**Figure 11: Audit closure time as per the company policies**

## **CHAPTER FIVE**

### **5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1. Introduction**

This section provides a summary of the findings, conclusions drawn on the evaluation of the internal auditing process in the Ethiopian Airlines Group, and finally some recommendations for future research and assessment based on the analysis and research outcomes.

#### **5.2. Summary of findings**

The following are the results of the surveys on the Ethiopian Airlines Group's internal audit practice in terms of framework and appropriateness, internal audit difficulties, the level of autonomy of the internal audit function, and the level of compliance of the audit system.

According to the demography study, nowadays most internal audit staff members are first-degree owners, demonstrating that the majority are more than capable of computing and their educational background is good with financial related degrees, which is good for effectively operating in auditing tasks. However, the internal audit process does not provide auditors in airline systems with the necessary training and development programs, which could improve and empower their skills and experience. With the exception of management, no internal auditor possessed audit-related certificates that could be used to improve the company's auditing activities.

Internal auditors are currently exercising organizational independence in their audit work on a daily basis, which means there is no conflict of interest and direct contact with the management and the board.

Internal audit has a process guideline in place to help internal auditors perform their duties correctly. The guideline, however, lacks periodic modification, despite the fact that every policy within the company should be revised every two years, and detailed steps must be followed by auditors, which may have a negative impact on their audit activities.

Several recommendations have been made by some of the survey participants. Enhancing

leadership and commitment to internal auditing, designing modern auditing operating systems that can leverage the auditing system, and obtaining company sponsorship for ACCAs, CIAs, and other academic upgrading programs are examples of these. If properly implemented, the recommendation will benefit both the internal audit department and the airlines as a whole.

According to the study's findings, the company is well structured and adequately equipped to carry out internal audit duties and responsibilities. The department also had a sufficient budgetary allocation to carry out the company's internal audit operations properly.

In terms of challenges faced by the internal audit function, 50% of respondents saw internal audit as a company necessity and commodity rather than a legal requirement. But, according to Federal Negarit Gazeta Proclamation No. 847120 14, it is both an internal necessity and a legal requirement for government-held development agencies. The majority of respondents, 86.76 percent, indicated that they were using technology as a tool to improve their jobs. This means that better technology is needed to maximize the effectiveness of internal auditing. To avoid potential data loss, the company should upgrade advanced systems.

In terms of auditor objectivity and independence, the majority of participants agreed that the internal audit department is independent of management intervention, but internal auditors were not disclosing their findings without the prior approval of managers or directors.

In terms of compliance, internal auditors had an unenviable role in protecting company policies from user deviation and proving system and procedure compliance.

### **5.3. Conclusions**

Because internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an entire operation, issues such as how effectively it performs this role have gained prominence. The global recession has raised concerns about the role of internal control, both in its more traditional role of monitoring compliance with internal controls and financial probity, and in its more recent, and to some extent, self-proclaimed role as an essential part of the risk management culture within organizations. Effective internal audit clearly assists organizations, particularly banks, in achieving their goals by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of managing risk, regulate, and governance practices.

In light of this, it is critical to assess internal audit effectiveness in order to improve audit services for auditors in particular and the aviation industry in general.

The study found that the department lacks an appropriate training policy, especially for license-related trainings. It is preferable to create a training policy and train internal auditors adequately. The survey data also revealed that the majority of internal auditors lack the additional required certification in internal audit, such as Chartered Certified Accountants, which can enhance and develop their skill and expertise (ACCA). CFE (Certified Fraud Examiner), CIA (Certified Auditor), and CISA (Certified Information System Auditor) (CISA).

The study also showed flaws in corrective measures for extended unclosed audit findings that violated company policy and standard procedures. According to the study, the audit report also does not include the auditees' suggestions on the study results.

#### **5.4. Recommendations**

From the data analysis and findings, the researchers arrived at the following recommendation. Multiple approaches are needed to produce effective audit report in organization and particularly in the internal audit process. No single approach is likely to address the effectiveness of audit activity fully and cost-effectively in the study area since it has multiple causes which could highly affect it in this dynamic world. Generally, and in the researchers understanding these different variables and their interrelationships that impact the effectiveness of audit activity can help to develop targeted strategies for effective audit practice which in turn contributes for effective corporate governance.

High quality audit work is arguably the function of effective guide and extensive staff expertise; periodic reviews of the internal audit activities by CIAs, ACCAs or other competent audit professionals; the internal audit process has to try its utmost effort to revise the existing guideline in a manner to assist the auditors by incorporating the necessary detailed step and make use of the above mentioned facts for conducting effective audit of high quality for the auditees.

The internal Audit process should have appropriate program for training developing the internal auditors, giving an opportunity for continuing education and certification in CIA, CISA, CFE and ACCA so as to produce effective audit. But there were no certified respondents in the internal

audit department except the high-level management staff.

The internal audit process should consider the audit closure time to the auditee departments and shall revise by reaching common understanding with the executives and the respective stake holders to improve compliance level of auditees under the airlines.

The airlines should to have use the latest technology supported system and improve the internal audit system more appropriately even though the researcher views good improvement in this regard but needs more attention to avoid receiving of audit reply through email. This kind of report exchanges may have lost in between when unforeseen situations arise like virus attack happened in last Aug 2021.

### **5.5. Further Research Suggestions**

The purpose of this study was to evaluate the internal audit practices of Ethiopian airlines. The researcher suggests conducting a similar study in other private airlines operating in Ethiopia, as the more accessible company is only the government-owned Ethiopian Airlines Group (ETAG), or elsewhere, to gain more experience and solve similar issues in the topic. The researcher also advised future researchers to conduct additional research in this area because the results may change due to the company's size and the company's transition to a holding company and a multi-segmented company.

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# APPENDIX I

## QUESTIONS FOR INTERNAL AUDIT TEAM

**Dear Sir/Madam**

The purpose of this survey is to gather information about the Internal Audit practice of the Ethiopian Airlines Group. Your reactions to the questionnaire items will be used to compile the data for the research. I can guarantee you that the data you provide will be kept strictly confidential and only the investigator/researcher will have access to it. Your participation is regarded as making a significant contribution to the quality of the research. As a result, I believe that participating in the study will broaden the scope of your help. Your sincere and thoughtful response is priceless and beneficial to the relating to the research outcome.

Henok Balew

Thank you very much

### **Part 1: General Information**

Please mark [√] where relevant to demonstrate your response.

1. Gender: Male [ ] Female [ ]
2. Respondent age: below 18 [ ] 18-25 [ ] 25-40 [ ] 40-60 [ ] above 60 [ ]

3. Position of respondent in the organization(ETAG)

Managers [ ] Auditor [ ] Other (specify) \_\_\_\_\_

4. Number of years of experience in the organization(ETAG)

<1 year [ ] 1-6 years: [ ] 7-11 years: [ ] 12-17 years: [ ] Over 18years [ ]

5. Academic Qualification

Diploma [ ] First Degree [ ] Master's degree [ ] Other (specify) \_\_\_\_\_

6. Expert accreditations:

CPA        ACCA        CIA        No related certification   

**Part 2: Statements concerning internal audit in your company.**

Please specify as to if you agree or disagree with each statement by rattling ( ) on the areas that describe your selection from “**Strongly Agree**,” which is represented by “**5**” to “**Strongly Disagree**,” represented by “**1**”.

**Note: - Strongly Agree = “5”, Agree = “4”, Neutral = ”3”, Disagree = “2”, and Strongly Disagree = ”1”.**

	<b>A. Structure and adequacy of Internal Audit over the company</b>	5	4	3	2	1
1	The internal audit department is capable of carrying out its responsibilities effectively.					
2	Internal audit is given a sufficient budget to carry out its duties successfully.					
3	Internal auditors have sufficient experience to comprehend the organization's systems.					
4	Internal audit staff members have knowledge and skills in a variety of areas (other than accounting and finance), as needed.					
5	Internal audit has policies in place to train internal audit staff.					
6	Internal auditors participate in ongoing professional development activities (such as professional association sponsored programs and correspondence courses)					
7	Each year, adequate short-term training for internal auditors is arranged.					
8	Internal audit performs end-to-end/corporate-wide audit activities to obtain a comprehensive picture.					

9	Internal audit work is guided by a comprehensive internal audit manual.				
<b><i>B. Challenges facing the internal audit system</i></b>					
1	Audit is regarded as a valuable commodity and a necessity within the company, rather than merely a legal requirement.				
2	Multiple stakeholders' expectations on delivering additional values may differ at the same time.				
3	It is difficult to find the "right talent."				
4	There is a greater emphasis on aligning the skill of internal audit staff with the requirements and wants of an organization.				
5	Internal audit needs to do a better job of leveraging technology, including data analytics.				
<b>C. IA independence and Objectivity</b>					
1	Internal audit is free of interference in carrying out its responsibilities.				
2	Internal auditors have complete freedom to include any audit findings in their audit reports.				
3	Internal audit reports to the board of directors (or audit committee).				
4	Internal audit employment decisions are overseen by the board of directors (or audit committee).				
5	Internal auditors are not assigned to audit areas in which they participated in the system design.				
6	Internal auditors do not take part in audits of activities for which they were responsible.				
7	Internal audit staff assignments are rotated on a regular basis.				
<b>D. Degree of compliance with rules and regulations.</b>					
1	How would you rate the contribution of internal auditors to an employee's adherence to policies?				

2	How would you rate internal auditors' control over actions that deviate from law and regulation?				
3	How do you rate audit closer time in relation to the given company policies and procedures?				
<b>E. Effectiveness of Internal Audit</b>					
1	Internal auditing indicates that the firm gains value from it.				
2	Internal auditing helps organizations perform better.				